Austria ... Sch. 20	Indonesia .. Rp 2600	Portugal ... Esc 90
Bahrain .. Din.0 650	Italy ...... L 1500	S. Arabia .. Rls 6.00
Belgium ... BFr.45	Japan Y550	Singapore . S$ 4.10
Canada ... C$1.00	Jordan ... Fils.500	Spain .... Pta 125
Cyprus ... C£0.70	Kuwait ... Fils.500	Sri Lanka ... Rup 30
Denmark .. Dkr.9 00	Lebanon .. £L 8.00	Sweden .. Skr 7 00
Egypt .... E£1.00	Luxembourg . LFr.45	Switzerland SFr 2.20
Finland .. Fmk 6.50	Malaysia .. Rm 4.25	Taiwan ... NT $85
France .. FFr. 6 00	Mexico .. Pes. 300	Tunisia .. Din 0.600
Germany . DM 2 20	Morocco .. Dh 6.00	Turkey .... L 750
Greece ..... Dr 80	Netherlands . Fl 2.75	U.A.E. ... Dh 6.50
Hong Kong . HK$ 12	Norway .. Nkr. 7.00	U.S.A. $1.00
India .... Rup. 15	Philippines . Pes. 20	

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 29,837 Friday January 24 1986 D 8523 B

EEC hormones ban: more politics for the farmer, Page 15

World news | Business summary

Singapore charges Malaysian leader

The Singapore Government *charged Tan Koon Swan, the Malaysian Chinese businessman and political leader, with six criminal offences relating to share purchases in his companies by Pan-Electric Industries and Growth Industrial Holdings, two Singapore-based groups which have since failed.*

The action throws the political scene in neighbouring Malaysia into confusion, reinforces the uncertainty hanging over the two countries' stock markets and diminishes survival hopes for the two companies.

In Kuala Lumpur, 300 members of the Malaysian Chinese Association, which is the country's main Chinese party and is headed by Tan, staged a demonstration outside the Singapore High Commission. Page 2

Delhi fire kills 38

A fire which swept through a luxury New Delhi hotel killed 38 people, including at least 22 foreigners, and injured 80. Page 3

French rail plan

France's state-owned railway outlined a 10-year plan to improve safety after three accidents last summer killed 83 people.

Emergency extended

Sri Lanka's Parliament extended a state of emergency for another month amid reports of more clashes between troops and Tamil guerrillas fighting for a separate state.

Italian flats blast

At least five people died when an explosion ripped through an apartment building on the edge of the city of Modena in northern Italy.

Peres progress

Israeli Prime Minister Shimon Peres held further talks in London with US assistant Secretary of State Richard Murphy. The Israeli side claimed that half the obstacles preventing direct negotiations with King Hussein of Jordan had been overcome. Page 16

N Ireland elections

Northern Ireland voted in elections that were forced on the British-ruled province by its Protestant majority to show their opposition to links with Dublin.

SA tribal clash

At least 30 people were killed during a tribal clash between Zulus and Pondos in Umbogentweni near the Indian Ocean port of Durban.

Marcos trial threat

Philippines presidential candidate Corazon Aquino plans to put President Ferdinand Marcos on trial if she wins next month's election. Page 3

EEC famine aid

The European Commission is to give Ecu 19.5m ($17.1m) emergency food aid for 10m famine victims in Ethiopia and Sudan.

Belgrade in IMF talks

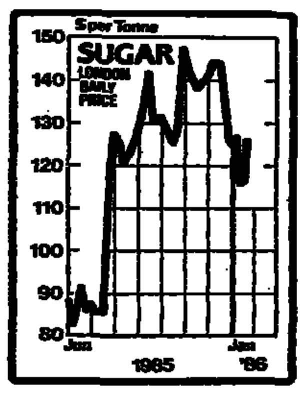
Yugoslavia and the International Monetary Fund began discussions which may hold the key to further Western credits for the country's embattled economy. Page 2

Bolivian strike

Bolivian workers held a general strike against the Government's *economic policies, only* hours after President Victor Paz Estenssoro swore in a new Cabinet committed to controlling inflation.

Union Carbide loses $582m

UNION CARBIDE, US chemicals group *facing multi-billion* dollar lawsuits after the Bhopal, India toxic gas disaster reported a net loss for 1985 of $582m or $8.35 a share. The company said it took a $185m pre-tax charge against 1985 earnings to cover "certain litigation contingencies" including the Bhopal accident Page 17



SUGAR prices stayed firm in London, and India returned to the market as a buyer. Analyst F.O. Licht predicted a reduced world production for 1985-86. The London daily price was fixed at $126 a tonne, up $8. Page 34

WALL STREET: The Dow Jones industrial average closed up 8.95 at 1,511.24 Page 42

TOKYO: The prospects of lower US growth left investors reluctant. The Nikkei average fell back 34.38 to close at 12,888.94. Page 42

LONDON: Firmer international stocks helped offset the effects of the tumbling oil price. The FT Ordinary index closed 3.2 down at 1,120.4, *and the FT-SE 100* ended 8.1 lower at 1,382.8. Page 42

DOLLAR was on the whole firmer in London, closing at DM 2.4525 (DM 2.4475) FFr 7.52 (FFr 7.5125) and Y202.0 (Y201.55). It was slightly easier at SFr 2.0745 (SFr 2.076). The dollar's exchange-rate index closed at 125.8 from 125.3. Page 35

STERLING fell sharply in London, losing 1 cent against the dollar to $1.3845. It also fell to DM 3.395 (DM 3.4125), SFr 2.8725 (SFr 2.895), FFr 10.4125 (FFr 10.475) and Y279.5 (Y281.05). The pound's exchange-rate index fell to 74.3 from 75.3. Page 35

GOLD was unchanged on the London bullion market at $350.50 but fell $3.10 in Zurich to $350.75. In New York the Comex February settlement was $351.90. Page 34

CHINA and the Soviet Union signed a goods exchange pact, covering such products as steel, cereals, meat, cars, timber and aircraft, in the first stage of a five-year trade agreement worth $14bn.

DELTA AIR, the sixth largest US airline, suffered a blow to second-quarter profits partly as a result of the *industry discount* fares war. Page 17

DRESDNER BANK'S Luxembourg subsidiary boosted operating profit *to DM 280m* ($114m) but set all of it aside for provision against international debt. Page 17

AMERICAN EXPRESS, the US financial services group, posted a 61 per cent jump in fourth-quarter profit and reported record earnings *by all its major units.* Page 17

TIN CRISIS: First signs of progress for several weeks in efforts to resolve the crisis emerged at an International Tin Council meeting. Page 34

BELL CANADA Enterprises, the diversified Canadian holding group, plans to raise up to C$200m ($142.8m) with an equity offering in Japan. Page 17

AMOCO, the fifth largest US oil company, suffered a 16 per cent drop in fourth-quarter net income to $390m as lower oil prices took their toll of the groups operations. Page 17

Thatcher faces growing crisis of confidence

BY PETER RIDDELL, POLITICAL EDITOR, IN LONDON

MRS MARGARET THATCHER and her Conservative Government *faced a growing crisis* of confidence last night after the British Prime Minister failed in a statement to the House of Commons to check the widespread *parliamentary* criticism of her *handling* of the Westland affair.

It was clear last night after a meeting of the 1922 Committee of backbench Conservative MPs that many of them remained deeply unhappy about the Government's approach.

Although there was an *attempt* last night to rally backbenchers behind Mrs Thatcher herself, there was renewed criticism of the role of Mr Leon Brittan, the Trade and Industry Secretary, with fresh calls by several senior MPs for his resignation. His future is therefore in growing doubt.

The pressure on the Government will be maintained next week. Mr Neil Kinnock, leader of the opposition Labour Party, successfully urged that a three-hour emergency debate be held on Monday.

During 50 minutes of tense and noisy exchanges in the House of Commons yesterday, Mrs Thatcher admitted that her own Downing Street staff had been involved with Mr Brittan and his officials in approving the partial disclosure of a *controversial letter on January 6* without the knowledge or consent of the author, Sir Patrick Mayhew, the Solicitor General.

The letter was seen as highly damaging to the campaign of Mr Michael Heseltine, the then Defence Secretary, in support of the European consortium which was seeking to rescue Westland in competition with Sikorsky/Fiat. It said that a letter Mr Heseltine had written to the consortium and made public contained "material inaccuracies." Mr Heseltine subsequently resigned from the Cabinet.

Mrs Thatcher said she had not been consulted about the decision to disclose the letter but said the action was justified in view of the need for the information in the letter rapidly to come into the public domain.

It later became known that Mrs Thatcher was fully informed of the actions of her staff only on Wednesday evening, even though she had been at a meeting in Downing Street on January 6, 16 days earlier at the same time as separate discussions involving her staff took place with the Department of Trade and Industry about the disclosure of the letter.

Mr Kinnock said last night that the claim that Mrs Thatcher did not know what had happened until the inquiry reported on Wednesday was lacking in credibility. In the Com*mons, he argued that Mrs Thatcher* had tried "dishonestly and covertly to subvert" Mr Heseltine and said the Government was rotten to the core.

Mrs Thatcher *for the first time* staked her personal authority over the affair in giving what she re*peatedly told* MPs was "as *full* an account as (she) possibly could."

But she faced strong opposition criticism, as well as several loud calls for her resignation, and a mixed reception from her own side.

Mrs Thatcher's general case is that the public disclosure of the let*ter became necessary because of* Mr Heseltine's campaigning on behalf of the European consortium. She said that it was a matter of duty that it should be made known that Sir Patrick had reservations about Mr Heseltine's earlier letter and this had to happen urgently because of a press conference

Full statement and reactions, Page 18; Editorial comment, Page 14

Westland share battle as Sikorsky buys 6.7%

BY LIONEL BARBER IN LONDON

SIKORSKY, the US helicopter maker partnering Fiat of Italy in a rescue plan for Westland, is understood to have bought a 6.7 per cent stake in the ailing British helicopter manufacturer.

The share purchases made late on Wednesday led to frenetic activity in Westland shares yesterday as the rival European aerospace consortium attempted to buy stock. Westland closed at 125p, up 28p on the day.

Sikorsky's buying marks the first time that the US helicopter maker has entered the market for Westland shares. It paid around 150p, more than 50 per cent above the prevailing market price, for a 4.4 per cent stake held by Prudential Corporation and a 2.3 per cent stake held by Prolific Unit Trusts, part of the Provincial Insurance Group.

Lloyds Merchant Bank, advising the European consortium, has also bought Westland shares, picking up just under 2 per cent from institutions at around 130p. In addition, a mystery buyer was said to have moved *into* the *market yesterday,* buying a 1.5 per cent stake at 152p. It was unclear last night whether the buyer was in favour of the Sikorsky rescue or the rival European offer.

The intense activity in Westland shares comes just before the Westland board announces a revised Sikorsky/Fiat rescue plan. Final details were ironed out at a Westland board meeting yesterday with its advisers Lazard Brothers, and the plan is expected to be announced early next week.

The new plan centres on a capital reconstruction for Westland which will require only 50 per cent majority support from shareholers at an extraordinary general meeting.

Market analysts said the renewed market activity was designed to prevent any chance of the Sikorsky/Fiat plan being defeated by shareholders.

Last week, the Westland board failed to secure a 75 per cent majority from shareholders at an extraordinary general meeting in *London. Both* the *Prudential* and Prolific supported the Sikorsky/Fiat proposal, but on Wednesday they were bid again for their shares apparently by the European camp. Rather than risk losing this crucial share block – and by implication the future vote by shareholders – Sikorsky, using Westland's brokers, Rowe & Pitman's moved in.

The outcome of a future vote by shareholders on a new rescue plan appears to be finely balanced. According to Mr David Horne, managing director of Lloyds merchant Bank, the European camp, including the consortium members British aerospace and GEC, Messerschmitt-Bölkow-Blohm of West Germany, Agusta of Italy, and Aérospatiale of France, and its supporter, Mr Alan Bristow (15 per cent), the former *helicopter operator,* speaks for around 25 per cent. On his calculations, the Sikorsky/Fiat camp, including Hanson, speaks for just under 25 per cent. Small shareholders could be decisive, Mr Horne said.

Lex, Page 16; Stock market report, Page 38

Stockholm wage hopes dashed

BY KEVIN DONE, NORDIC CORRESPONDENT, IN STOCKHOLM

SWEDISH government hopes that trade unions and employers would agree to negotiations on a low national wage settlement spread over three years were dashed yesterday when the employers decided to insist on decentralised wage bargaining sector by sector.

Mr Stig Malm, leader of LO, the blue-collar workers' union confederation, has already warned that a refusal by the employers to enter centralised negotiations could lead to a wages free-for-all.

The leaders of LO's 24 member unions have been called to emergency consultations today.

Mr Kjell-Olof Feldt, the Finance Minister, has spelled out the stark consequences that inflationary wage settlements would have for Sweden's competitive position, but signs are growing that the Government's economic policies could be seriously undermined by its inability to cope with escalating wage costs. Both sides of industry have rejected the government plea for a three-year settlement.

In a gloomy set of economic forecasts published *yesterday,* Svenska Handelsbanken, one of the country's leading commercial banks, warned that Swedish industry's competitive position would deteriorate both this year and next year as a result of higher wage cost increases and a lower increase in productivity than in other countries.

It forecasts a jump in the wages of the average industrial worker of some 8.5 per cent, a similar increase to that achieved in 1985, and it forecasts a similar increase of 8–9 per cent in the public sector.

With growth forecast to slow to about 1 per cent this year and virtually stagnating in 1987, Svenska Handelsbanken warns that unemployment could rise next year to its highest post-war level.

Sweden's competitiveness in foreign markets could only be strengthened sufficiently to maintain employment levels by a wage freeze or another devaluation. "It is a question of choosing in the future between unemployment, zero wage settlements or devaluation."

SAF, the employers federation, said yesterday that the wage demands already made by LO and PTK (the private-sector white-collar workers trade union confederation) had made it impossible to reach quick agreement on a low wage ceiling through central negotiations.

Demands made by PTK would lead to wage rises of about 10 per cent, the employers federation said. LO demands for giving priority to low-income groups would clearly threaten employers' hopes for injecting greater flexibility into the Swedish wage structure.

Insistence on sector-by-sector negotiations has come in particular from the powerful engineering industry, which includes most of Sweden's leading exporters such as Volvo.

UK holds out against rise in interest rates

BY PHILIP STEPHENS, GEORGE GRAHAM AND DOMINIC LAWSON IN LONDON

THE BRITISH Government sought *to hold out against an immediate* rise in interest rates yesterday as a further slide in oil prices to six-year lows triggered the fourth consecutive day of heavy losses for the pound.

Interest rates on the London money markets, however, continued to rise, *sustaining the* widespread expectation of an upward move in bank base rates within the next few days.

At one point yesterday, the price of March and April cargoes of the main North Sea crude reached a low of $17 a barrel, after Sheikh *Ahmed Zaki Yamani, the* Saudi Arabian Oil Minister, had said there might be "no limitation to the downward (oil) price spiral."

As the political row over Westland heightened the uncertainties in financial markets, the Bank of England injected some £450m *($623m) into the money markets at* rates consistent with the present 12½ per cent base rates.

Mrs Margaret Thatcher, the Prime Minister, responded to demands from the opposition Labour Party for a clarification of official policy by re-affirming that interest-*rate rises* were *unwelcome but that* lower inflation remained the first priority.

Dr David Owen, the Social Democratic Party leader, called on Mrs Thatcher "to make it clear that if interest rates rise, as many fear will happen tomorrow, that this will be accompanied by a decision to join the European Monetary System."

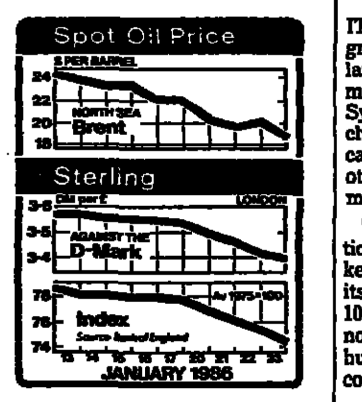
Whitehall officials were insisting that the Treasury would act if its inflation target was jeopardised, but there were signs that its reluctance to sanction higher borrowing costs also reflected the Government's political troubles.

Besides pushing up industry's costs, a rise in bank lending rates would almost certainly lead to an increase in building society home mortgage rates, which would feed through into higher retail price *inflation.*

One senior Whitehall official said yesterday that it would have been inconceivable for the Government to have announced a rise in base rates before Mrs Thatcher had made her statement on the Westland affair to the House of Commons.

The Treasury's inaction over the past few days has also raised questions over whether there has been a shift in the exchange rate policy adopted by the Government last year.

In his budget speech last March, Mr Nigel Lawon, Chancellor of the Exchequer, made clear that the Government would react to sharp falls in the exchange rate, whatever their cause.



Recent events, however, suggest that he is prepared to tolerate at least some fall in sterling's value if it is entirely attributable to lower oil prices, which put downward pressure on inflation through cheaper petrol and reduced industrial costs.

Against that, the authorities acknowledge that unless the pound stages a recovery, further resistance to higher base rates would risk undermining the confidence of financial markets in the Government's anti-inflation strategy.

A Treasury statement seeking to calm the markets by downplaying the significance of North Sea oilput in Britain's economy had little impact yesterday as the foreign exchange markets reacted to Sheikh Yamani's comments.

Mr Tony Blair, the Labour Party's Treasury spokesman, said that the statement had compounded uncertainties in financial markets.

City of London analysts said that the Government's decision not to raise interest rates yesterday could mean an even greater rise would now be needed to reverse sterling's slide.

"The longer they wait, the bigger it will need to be to turn the currency round," Mr Gavyn Davies, chief economist at stockbrokers Simon & Coates, said yesterday. "Maybe they could have got away with 1½ percentage points on base rates yesterday, but it could need 2 points tomorrow.

The pound fell 1 point during the day on the Bank of England's trade-weighted index, closing at 74.3. It has dropped by nearly 5 per cent so far this week. Sterling closed at $1.3845, down a cent, and at DM 3.3950, down 1¾ pfennigs.

Lex, Page 16; Money markets, Page 35

ITT delays key US digital switch contract

By Paul Taylor in New York

ITT, the US-based multinational group, said yesterday that it had delayed installation of the first commercial US order for its advanced System 12 digital telephone exchange switch by about a year because of software difficulties and other delays adapting the equipment to North American standards.

The delay raises serious questions about whether ITT will miss a key opportunity to sell System 12 – its flagship product developed over 10 years at a cost of $1bn – to the now independent and digital-hungry 22 local Bell telephone companies.

It also raises the prospect that ITT will be forced to withdraw or scale back its plans to grab a slice of the fiercely competitive digital switch race in the US in order to concentrate on sales in Europe and elsewhere. If ITT is forced to withdraw from the US battle, it would be a serious blow for the company and Mr Rand Araskog, ITT's chairman, who had made adapting the switch to US standards one of his top priorities.

Wall Street has long viewed ITT's heavy investment in System 12 as a high-risk gamble and viewed adaption of the complex equipment to US standards as a key test of Mr Araskog's emphasis on advanced research and development and management skills.

The revelation that ITT has told United Telephone of Florida that it *can not now deliver System 12 later* this year also comes at a time of significant realignment within the world digital switch manufacturing industry. Only last week GTE, the US telecommunications group, announced plans for a joint venture with Siemens of West Germany for an advanced telecommunications equipment joint venture.

GTE and Siemens are among a raft of US, European and Japanese companies competing for a slice of the lucrative US digital switch market currently dominated by AT&T and Canada's Northern Telecom. Digital switches represent the latest generation of advanced telecommunications equipment replacing older central exchange equipment and allowing telephone companies to provide a host of add-on customer services.

The US market for such equipment is estimated to represent about a third of the total worldwide market and is potentially the most dynamic in the short-term because of the break-up of the Bell system

ITT had hoped to parlay its suc-

Continued on Page 16

BT and Mitel, Page 28

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CONTENTS

EUROPEAN NEWS

Court challenges to tax-sharing formula bring about strange alliances, **reports Jonathan Carr**

W. German states battle over revenue

"UTTER RUBBISH," protested Mr Max Streibl, the normally mildspoken Finance Minister of Bavaria. He had heard some absurd proposals in his time, but this was the limit.

The cause of the outburst was an acid remark about Munich, the Bavarian capital, made by Mr Klaus von Dohnanyi, Lord Mayor of the city-state of Hamburg. He charged that Hamburg was pouring out so much cash to help other West German regions that Munich might do well to rename its most elegant street Hamburger Allee. Those are fighting words to any self-respecting citizen of the "free state" of Bavaria.

That exchange is just one element in a struggle over money which cuts across party lines, strains traditional alliances and is pursued with all the fervour of the European Community's budget battles. At issue is the *Finanzausgleich*, the system through which the financially stronger länder (federal states) transfer sums to help out the weaker ones.

The aim, outlined in the constitution, is to achieve a broad economic and social balance among the different regions. The system worked pretty well for a long time, but now faces almost intolerable strains. The federal constitutional court, the highest in the land, has been hearing arguments this month from no less than six länder (out of 10) who think they are paying too much or not getting enough.

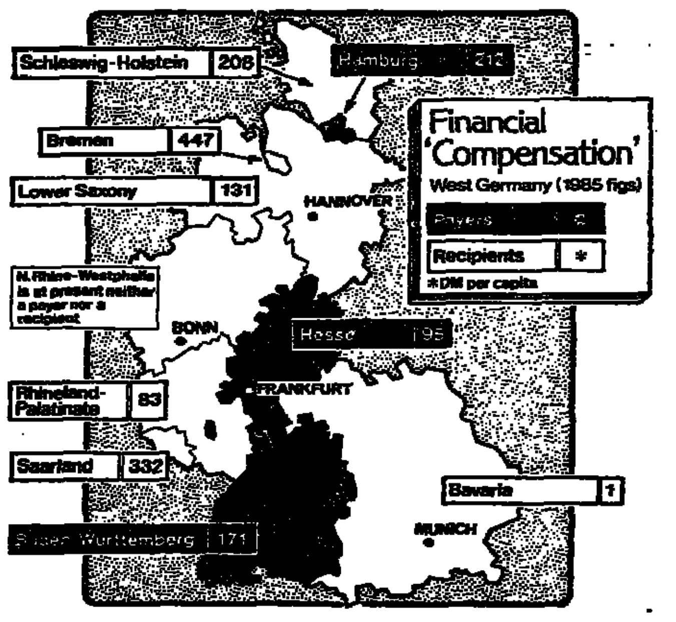
The system is complex, but in essence works like this: the tax revenue occurring to each individual state is compared with the average for all states. Those clearly above the average have to pay into a common pool; those below it are recipients. There are several key exceptions to this general rule. For example, special allowance is made for the city-states (Hamburg and Bremen) on the ground that they have to pay relatively more for local transport, public order and so on than do the other states. Even so, Hamburg remains one of the three states paying into the Finanzausgleich and has the biggest per capita bill.

It was the state of North Rhine-Westphalia (NRW), followed at varying intervals by Baden-Württemberg, Bremen, Hesse, Hamburg and the Saarland, which began the trek to the constitutional court in mid-1983. At first sight this may seem odd, because, as the table shows, NRW neither contributes to nor receives Finanzausgleich funds. It used to pay into the pool but in the meantime its tax position has sunk to roughly the länder average.

This reflects the fact that the state, which includes the heavily industrial Ruhr area, has a high concentration of relatively declining sectors like iron and steel.

NRW feels it is carrying too much of this burden alone, points to the importance of its coal for West Germany's energy supplies and demands an injection of länder funds. In particular it argues that funds already raised (in other länder) from levies on oil and gas exploitation should be drawn fully into the Finanzausgleich system.

The latter point is aimed above all at the neighbouring state of Lower Saxony, which has revenue of some DM 2bn ($833m) a year from oil and gas levies. This income is now partly taken into account in reckoning how much Lower Saxony should receive from the common pool. Even so, the state still receives



more from the Finanzausgleich than any other. Needless to say, it has not gone to the constitutional court.

By far the biggest single contributor is the southern state of Baden-Württemberg which now puts up roughly 70 per cent of all the funds available for transfer. This reflects the rise of the state as an economic powerhouse, with a good spread of fast-growing, high-technology business, the lowest unemployment rate in the country and ever-swelling tax revenue.

Basically, Baden-Württemberg wants to retain more of the revenue it generates. It says it is ready to continue as a major source of funds for the Finanzausgleich system, but argues that the current imbalance is ridiculous.

In principle that would make the Christian Democrat-governed Baden-Württemberg a natural ally of Social Democrat-run Hamburg. The latter complains, for example, that it loses some DM 700m annually in tax revenue because of commuters who work in Hamburg but live in the neighbouring (Christian Democrat) states of Lower Saxony and Schleswig Holstein. Under German law the wage and income tax of these commuters goes to the states in which they live – although, Hamburg argues, it bears the cost of a lot of the local infrastructure.

But the highly saving-conscious Baden-Württembergers are not convinced that because Hamburg has high costs it should automatically receive more funds. They feel the special allowances made for city-states are already too great and argue for a cut.

That would seem to put Baden-Württemberg in the same boat with neighbouring Bavaria, smarting under Mr von Dohnanyi's sharp comment about Munich. But in fact even these two apparent allies have different interests. So far, perhaps surprisingly, Bavaria has been a recipient of Finanzausgleich funds. Although the Munich area is becoming known as the so-called German Silicon Valley, the state has a lot of problems – for example, the depressed Bavarian forest region along the Czechoslovak border.

However, Bavaria last year received only DM 13m from the common pool and is on the verge of becoming, like North Rhine-Westphalia, neither a recipient nor a payer. Its position will become worse if another move by Baden-Württemberg is successful. The latter state is pressing for a change in the Finanzausgleich rule under which länder that are only just above the national average tax line do not have to pay into the pool. Baden-Württemberg is aiming at North Rhine-Westphalia with this proposal, but it is also making Bavaria decidedly uncomfortable.

The judges of the constitutional court seem certain to need the wisdom of Solomon (and a good computer) to sort out this tangle. Small wonder that they are unlikely to pronounce before the summer. But even then they can only say whether the current Finanzausgleich is in accord with the constitution or not. A new system would have to be worked out by the länder and the Bonn Government – though no one knows quite how.

Von Galen takes SMH blame

BY JOHN DAVIES IN FRANKFURT

COUNT FERDINAND von Galen, the once prominent West German banker, told a court in Frankfurt yesterday that he accepted moral responsibility for "mistaken decisions" by the bank of which he used to be senior partner.

Count von Galen, former president of the Frankfurt Stock Exchange, appeared before the Hesse state court (Landgericht) on charges of fraud and breach of trust.

The case stems from the troubles of Schröder, Münchmeyer, Hengst (SMH), the private bank which heavily over-lent to IBH, the construction equipment empire built up by Mr Horst-Dieter Esch.

SMH was saved from collapse in November 1983 through a rescue operation mounted by other banks, and the healthy parts of the business (and the name) were later sold to Lloyds Bank of the UK.

In late 1984 Mr Esch was sentenced to three and a half years jail for breach of trust and contravening West German company law.

Count von Galen, 50, told the court that he had not wanted to cause financial harm to others or enrich himself. He and his family had lost DM 120m ($49.1m) as a result of the affair.

He told the court he had been misled by Mr Esch and had believed up to the last moment that it might be possible to save the tottering IBH group.

Mr Hans Lampert, a former SMH partner, also appeared before the court yesterday on charges of fraud and breach of trust. He concerned that banks involved in refinancing SMH operations should have been informed of the IBH risks by spring 1983 at the latest.

In related proceedings last week, Mr Wolfgang Stryj, a former SMH partner, was given a jail sentence of two years and three months. Mr Hans-Hermann Muenchmeyer, another former partner, was given a suspended sentence of one year and nine months, while Mr Ralph-Rene Lucius, a former senior SMH employee, received a suspended sentence of one year.

The SMH affair, one of West Germany's most spectacular financial debacles since the second World war, speeded up moves to tighten the country's banking laws, in particular the degree of lending to a single company or group of companies.

The SMH troubles presented the West German banking system with its greatest potential crisis since the collapse of the Herstatt bank in 1974. A large number of banks were called together by banking supervisory authorities in a late-night session to arrange a rescue operation.

CDU mayor suspended over corruption charge

BY LESLIE COLITT IN BERLIN

THE GOVERNING mayor of West Berlin, Mr Eberhard Diepgen, whose Christian Democrat (CDU)-led government has been charged with widespread corruption, yesterday suspended a CDU district mayor, pending the outcome of an investigation.

Earlier this week, the prosecutor's office launched an investigation against the mayor of Tiergarten district. He was suspected of accepting bribes from a prominent local builder, who was placed under arrest.

A CDU district building councillor and a West German tax adviser were also arrested in connection with the affair. Several high-ranking officials in the city's finance and building departments are being investigated on suspicion of receiving bribes.

The corruption charges are a serious problem for Chancellor Helmut Kohl's CDU in Berlin. Until now, it was widely praised for an innovative administration under Mr Diepgen and his predecessor, Mr Richard von Weizsäcker, who became President of West Germany in 1984.

Mr Klaus-Rüdiger Landowsky, the general secretary of the West Berlin CDU, confirmed that his party received up to DM 100,000 ($40,983) in contributions from the arrested builder. Mr Landowsky was criticised in the press for holding posts on the executive board of the city mortgage bank and a building credit bank, in addition to his political function. But since the Second World War, West Berlin officials in all parties have managed to combine business and political interests.

West Berlin has become especially sensitive to political corruption as two Social Democrat (SPD) mayors were forced to resign in the late 1970s, after municipal corruption scandals. When Mr Dietrich Stobbe resigned in 1979, the city was widely regarded as being almost ungovernable.

It was faced with a militant 'squatters' movement and fast-declining traditional industry. Both situations were reversed under the CDU, which managed to regain the crucial confidence of West German industry without which West Berlin cannot exist.

Malta bid for pact on terrorism set back

By Stewart Dalby and Godfrey Grima in Valletta

THE ATTEMPT by Malta's Prime Minister, Dr Carmelo Mifsud Bonici, to elicit from selected Mediterranean countries a co-ordinated commitment not to support the export of terrorism appears to be in difficulties.

He had planned to convene a round table conference on the terrorism issue and had invited Algeria, Cyprus, Egypt, France, Greece, Italy, Tunisia, Yugoslavia and Libya to attend. However, only Cyprus has said it will do so, Egypt and Tunisia have refused, and Mr Bettino Craxi, Italy's Prime Minister, told Dr Mifsud Bonici at their meeting in Sicily this week that he would take action only in conjunction with the rest of the EEC.

The Maltese leader, who gave Mr Craxi details of his meeting with Col Muammar Gadaffi of Libya, intends to press on with his initiative, however. He wants to keep lines of communication open between Libya and Western countries. He also believes that economic or military action against Libya could harm Malta.

Libya is Malta's largest non-European trading partner and Malta wants to encourage its nationals to work there to ease its unemployment problem, now put conservatively at 10 per cent of the workforce. Under a recent agreement Libyans are allowed to visit Malta without a visa, although they must have identity cards. Some 3,000 come each month, mainly to buy car spare parts and other consumer goods.

The two countries have strong economic links. Libya has provided soft loans and oil at concessionary prices. It is also involved in six joint ventures with Maltese and other third parties including Britain's GEC and Hawker Siddley.

Dr Mifsud Bonici fears that economic sanctions against Libya or a blockade of its ports would damage Malta's trade links. If military action were taken against Libya, an obvious target for Col Gaddafi would be the Nato base at Sigonella in Sicily, directly north of Malta.

Diplomats here say the US is conscious of Malta's goegraphic and economic ties with Libya, but is concerned at the visa arrangements. The Maltese authorities are adamant that entry procedures are scrupulously observed and there is very little possibility of Libyans picking up Maltese passports in Valletta and then slipping into Europe.

Reuter adds from Rome: A magistrate investigating the terrorist attack at Rome airport on December 27 in which 16 people were killed has issued a warrant for the arrest of the Palestinian guerrilla leader Abu Nidal on a charge of multiple homicide.

Danish plea rejected on EEC reform

FRANCE AND Spain have rejected a Danish call for fresh talks on European Community reforms which were voted down by Denmark's Parliament on Tuesday, Reuter reports.

Mr Roland Dumas, the French Foreign Minister, said after meeting with Mr Uffe Elleman-Jensen, his Danish opposite number: "It is impossible for this negotiation to be re-opened in any way." The Dane was on the third stop of a two-day tour of six EEC capitals.

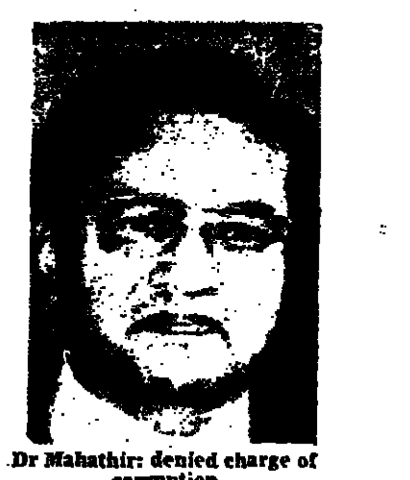
In talks in Spain yesterday he was told that the reforms were minimal and should not be re-negotiated, the Foreign Ministry said.

Mr Francisco Fernandez Ordonez, the Foreign Minister, said later: "Europe needs to create a genuine common market. If one country blocks the others this poses a very serious problem."

OVERSEAS NEWS

Political challenge for Mahathir as Tan faces charges

BY WONG SULONG IN KUALA LUMPUR AND CHRIS SHERWELL IN SINGAPORE



Dr Mahathir: denied charge of corruption

THE LODGING of criminal charges in Singapore yesterday against Mr Tan Koo Swan, the Malaysian entrepreneur who is head of the country's Chinese community, could hardly have come at a worse time for Dr Mahathir Mohamad, Malaysia's Prime Minister.

His four-and-a-half year rule was already coming under increasing challenge, both from within the dominant United Malays National Organisation (Umno), which he leads, and from a resurgent fundamentalist opposition movement called Parti Islam. Now, with the 61-year-old Malaysian leader obliged to go to the polls before April next year, his options are beginning to look increasingly limited.

The darkest pessimists think his position is becoming so eroded that he may be able to survive the year. Certainly his plans to hold an early election before May seem to be ruled out, but he is still believed to be anxious to secure a fresh mandate if he can.

The most immediate problem posed by Mr Tan's fate concerns the leadership of the Malaysian Chinese Association (MCA), the largest of the Chinese political parties and the second most important partner in the coalition government after Umno.

It was only last November that Mr Tan secured the MCA persidency, coincidentally at a peak in the crisis over the financial problems of Pan-Electric Industries in Singapore. Now the party seems certain to suffer a vacuum at the top, two months after ending a protracted leadership battle.

The 5m Malaysian Chinese, who form one-third of the population, are in an angry mood. Demoralised by the pathetic state of the MCA, squeezed by the economic recession and humiliated by the arrogance of the Malay leaders, they are now out—in the words of one Chinese figure—"to teach the Government a lesson."

That means a potential loss of votes for the coalition as Chinese voters desert the MCA in favour of the opposition Democratic Action Party, which traditionally takes a fifth of the national vote, and Parti Islam, which has been wooing Chinese support with a calculated new strategy.

Dr Mahathir's main problem is not the Chinese voters, however, but his own tarnished credibility and the subtle, but nevertheless perceptible, pressure on him from Umno.

Despite denials, the strong partnership that once prevailed between Dr Mahathir and his deputy, Datuk Musa Hitam, appears to have undergone some stress. The evaluation to the Finance Ministry in 1984 of Mr Daim Zainuddin, a prominent businessman who is Dr Mahathir's confidant, together with the placing of others in strategic positions in the Government and party, has also seemed to put a question mark over the natural succession of Datuk Musa.

At the same time Dr Mahathir is having to ward off allegations of corruption. In an extraordinary interview on nationwide television on Wednesday night, he was forced to deny that he was corrupt or that he had amassed enormous personal wealth while in power.

He also had to defend many of his controversial economic policies, including his industrialisation programme, which many believe is ill-conceived. Meanwhile, because of falling commodity prices, the economy as a whole stands no chance of achieving the optimistic 6 per cent growth target set for it in 1986.

This week, too, Dr Mahathir has had to call off a rearguard action and concede to public pressure to release a report on the Bank Bumiputra affair. The state-owned bank lost more than $1bn (£769m) to Hong Kong property speculators, including the Carrian company, between 1979 and 1983, and responsibility is believed by many to reside in high places.

But if these are challenging times for Dr Mahathir, he plainly intends to fight back. Yesterday he began the first of a series of well-orchestrated nationwide political rallies by addressing 20,000 supporters in a town 50 miles south of Kuala Lumpur.

All this underlines the unpredictable turn which Malaysian politics has taken with the arrest and charging of Mr Tan. Few people are prepared to forecast what will happen next. But no one doubts that the immediate outlook for Malaysians is unhappy.

Singapore urged to ease taxes on businesses

BY OUR SINGAPORE CORRESPONDENT

THE SINGAPORE Government has been told to tap the vast surpluses of its statutory boards in order to make swingeing cuts in corporate and other taxes and offer more attractive incentives to local and foreign businesses.

The stark recommendation comes from a panel of experts in a report to the high-powered Economic Committee which is formulating a future growth path for Singapore's ailing economy.

The Government is now considering the proposals and can be expected to act on many of them in the next budget, due in March. The Committee, chaired by Brig-Gen Lee Hsien Loong, son of Prime Minister Lee Kuan Yew and himself a junior minister, will deliver its findings next month.

The 11-man panel, called the sub-committee on fiscal and financial policy, proposes an immediate slashing of corporate tax rates from 40 to 25 per cent or, alternatively, a graduated reduction along with an equivalent cut in personal income tax rates.

It recommends that all offshore income should be taxed at a concessionary 10 per cent rate instead of the current 40 per cent which applies in most cases. Withholding tax on interest for non-residents should fall from 40 to 15 per cent, it says.

Of particular importance is the panel's call for proceeds from managing funds in Singapore to be treated as capital gains, subject to zero tax. Questions over whether they might be treated as trading profits are widely believed to have held up Singapore's development as an international fund management centre.

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EIB likely to have role in Channel tunnel finance

BY IVO DAWNAY IN BRUSSELS

THE EUROPEAN Investment Bank, the EEC's main lending institution, will almost certainly play a role in financing the Channel tunnel project, Mr Ernst-Guenther Broeder, EIB president, said at a presentation of the bank's 1985 results yesterday.

Mr Broeder said that the bank had already discussed the civil engineering scheme with the British and French, but he would not expand on the likely level of EIB commitment to the project.

Total EIB financing last year rose to Ecu 7.18bn ($6bn), up from Ecu 6.9bn in 1984. The increase, at 4 per cent, was slower than last time when lending leapt by 16 per cent. Borrowing rose from Ecu 4.45bn to Ecu 5.7bn, with finance raised in European Currency Units amounting to Ecu 731m or 12.8 per cent of the total, thus replacing the D-Mark for the first time as the most popular currency after the dollar.

Italy remained the biggest borrower within the EEC, accounting for almost 46 per cent of loans. But lending in the UK registered the largest surge, increasing by 21 per cent to Ecu 1.13bn. Greece also increased its loans substantially.

Funds allocated within the Community amounted to Ecu 6.5bn, with a 12.7 per cent rise from the EIB's own resources and a 25 per cent fall in the use of the alternative New Community Instrument – the facility by which the EEC borrows capital, but channels its distribution through the bank.

Lending to Spain and Portugal increased by Ecu 40m to Ecu 260m over the year, prior to their full integration on their accession to full Community membership this month. Loans to African, Caribbean and Pacific (ACP) countries under the *Lomé Convention* was also up from Ecu 180m to Ecu 235m, but commitments under the Mediterranean protocols almost halved to Ecu 165m.

Greek tax Bill proposes prizes, prison sentences

BY ANDRIANA AERODIACONOU IN ATHENS

THE GREEK Government has tabled an innovative tax bill in Parliament. It makes tax evasion a criminal offence and establishes an honesty prize for truthful declaration.

The Socialists, who launched an economic stabilisation programme last October, hope to increase income from direct taxes by 53.4 per cent in 1986, mainly by cracking down on tax evasion.

Under the new bill, tax evasion offences for sums over dr 300,000 ($1,900) will be punishable by prison sentences ranging from one month to five years. Evading taxes is something of a national sport in Greece, where the black economy is unofficially estimated to account for more than half the gross domestic product.

At the same time, taxpayers judged to have been frank in their declaration will be rewarded with bonuses of up to dr 200,000 in the form of a 10 per cent discount on their taxes, as well as with financing on favourable terms by state commercial banks. The measures apply to companies as well as to individuals.

The bill foresees the gradual elimination between 1986 and 1990 of all special tax exemptions that selected professional groups – including MPs – have hitherto enjoyed in Greece. It establishes a minimum income declaration of dr 550,000 a year for the self-employed.

IMF back in Belgrade for interest rates talks

BY ALEKSANDER LEBL IN BELGRADE

AN INTERNATIONAL Monetary Fund (IMF) team is back in Belgrade trying to patch up differences with the Yugoslav Government over its interest rate policy.

The Government has frozen interest rates in January at the December level, although according to the formula agreed with the IMF last May they should have been increased.

That formula says that the benchmark three-month deposit rate should be calculated on the basis of inflation measured by producer prices in the previous three months and anticipated inflation for the next two months. If applied, that would increase the rate from 61 per cent to more than 80 per cent.

The Government feels that the economy cannot bear the burden of high interest rates and not even the burden of the much lower blended rate it has been paying.

Producers have been trying and succeeding in offsetting higher interest rates through higher prices and producer prices in the 12 months to last December increased 81.3 per cent.

Communist ends reluctant race

A COMMUNIST candidate who campaigned vigorously in favour of a Socialist rival for Sunday's presidential elections in Portugal, withdrew officially from the contest yesterday, saying his campaign had been justified, **Reuter reports from Lisbon.**

Mr Angelo Veloso, nominated by Portugal's powerful Communist Party, which commands between 16 and 20 per cent of the national vote, used his official broadcasting slots to urge the electorate to vote for Mr Francisco Salgado Zenha, dissident Socialist.

Other candidates failed in an appeal to the constitutional court to stop the broadcasts.

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Delhi hotel fire leaves 38 dead and 80 injured

John Elliott reports from New Delhi on one of India's worst hotel fires

THREE BRITISH engineers were among 38 people killed early yesterday morning when fire swept through the bottom floors of a 12-storey hotel in *New Delhi*, sending deadly black smoke into bedrooms above.

Another 80 people were injured, making this one of India's worst hotel fire disasters. There were 186 guests in the hotel which means that a fifth of the total died.

Police were *last* night investigating the possibility of sabotage at a time when *security in New Delhi* are on the alert for extremists attacks linked with the troubles in the northern *state of Punjab*.

Firemen fought the blaze for more than five hours and bodies were still being carried *out of* the hotel yesterday morning. An official judicial inquiry was ordered by the Delhi administration.

The hotel, the five-star Siddarth Continental in South Delhi near the city's main airport, is popular with foreign and Indian businessmen and many foreign companies used it for teams of visiting engineers.

Two of the three British engineers killed were employed by *Allott* and Lomax, Cheltenham-based civil engineering consultants on Northern Engin*eering Industries' £230m* Rihand power station contract. They were Mr Richard Pinkey and Mr John Medland. The *third was Mr Michael Woolgar* of BTR Silvertown from Burton-on-Trent.

Five *other engineers on the* Rihand project escaped from their bedrooms along with four British *employees of Indian* Shaving Products, a new razor blade company being set up by Gillette *of the* US and UK.

"There was a lot of banging and shouting and I opened my bedroom door and found the corridor full of acrid black smoke" said Mr Doug Bessey, a Gillette engineer. "We put wet towels round our mouths and noses and got to a nearby fire escape.

"We had heard no alarms and it seemed that the first fire engine to arrive had no water and the fire must have been going for at least an hour before it arrived."

Other guests also reported *that they heard no fire alarms,* although the hotel management said they were working. Some *guests jumped from* upper windows to escape the smoke while others died in their *rooms after failing to break* windows with chairms, not realising they could be un*fastened and opened.* Some survivors reported that panic started when lights went out.

The hotel *was* built in 1982 and is one of two hotels in Delhi owned by a family construction and engineering company called Jaiprokash.

Although safety standards generally low in India, warnings have been issued to other central Delhi five-star hotels in recent weeks about inadequate fire precautions at a time when a surge in business visitors is filling most major hotels.

But the Siddarth management *said* yesterday that it had passed a fire drill with the city's fire authorities ten days ago. *The hotel* however had no sprinkler system, only a smoke-sensitive alarm system which appeared not to work.

A five-star rating means the hotel has fire escape plans on bedroo*m doors, that fire* exits are clearly marked, and that there is some firefighting equip*ment on each floor.*

The fire started in a basement level banqueting hall just after 1.30 am yesterday morning which was gutted. Only two people died of burn injuries. "Most people died of suffocation in their rooms," said Mr J. S. Malhotra, the hotel general manager.

Police officers investigating the fire thought it could have been caused by an electric short circuit, a gas leak or a discarded cigarette. They said they had found no immediate evidence of sabotage

But Mr S. Jain, architect of the hotel, who surveyed the damage, said he could not understand how the fire had apparently travelled up three floors in about 15 minutes. "*The concrete floors are 6in to* 8in thick and are undamaged. Fire could not travel that fast, *even up ducts and staircases,* so sabotage on different floors is a possibility."

Among the dead were 25 foreigners including three Japanese engineers helping to equip a car factory, and a senior German diplomat and his wife. Among the Indians was a director of the large Rourkela steel plant and two general managers of the Kirloskar group.

Aquino plans to strip Marcos of immunity and put him on trial

BY SAMUEL SENOREN IN MANILA

PHILIPPINE PRESIDENTIAL aspirant Mrs Corazon Aquino plans to strip President Ferdinand Marcos of his immunity and put him on trial if she wins the polls on February 7.

The *removal of Mr Marcos's* immunity cover is among eight major points of a political agenda which Mrs Aquino, 52, unveiled before a large crowd of civic and business leaders in a Manila hotel yesterday.

The present constitution which became effective after Mr Marcos declared emergency rule in 1972, provides him with blanket immunity from suits long after he has left office.

Mr Aquino had said she would seek *justice* for her husband Mr Benigno Aquino who *was assassinated in 1983* and put Mr Marcos on trial for the murder.

In *his campaign sorties,* Mr Marcos has said Mrs Aquino did not deserve to be voted into office because she was out for vengeance.

Mrs Aquino has charged the 68-year-old President, who is fighting the toughest battle in his political career, with human rights violations and pillaging the economy.

Mr Marcos and his powerful wife Imelda, are the subjects of a US congressional investigation looking into reports that they

Mrs Corazon Aquino

diverted US economic aid.

But a team from the US Government accounting office which was sent to Manila last month *has released preliminary find*ings that US economic assistance to the Philippines had been *properly applied and disbursed.*

AP adds from New York: President Marcos's claim that *he was a heroic guerrilla leader* during the Japanese invasion of his country in the Second World War is "absurd" and "fraudulent," the US army concluded in reports cited yesterday by the New York Times.

The documents, in US army archives for three decades, state that repeated army investigations found no evidence to support Marcos's claims.

Last evacuees sail from Aden

BY KATHLEEN EVANS IN DJIBOUTI

BRITANNIA, the British Royal Yacht, made its last mission to rescue the remain*ing foreigners* from Aden yesterday as fighting was reported to have died down in the *capital.*

The Britannia took on board about 550 non-Soviet nationals, *half of whom had been* camping out at the battered and beseiged Russian Embassy. The *refugees were picked up at Little* Aden, where they arrived yesterday after a hazardous 15 kilometre *drive through the* war-torn city. The convoy included Russian and French nationals and *a* number *of* United Nations officials.

Several hundred of the *foreigners converging on* Little Aden awaiting rescue were forced to spend the night outside the gates of the local refinery following a refusal by the refinery manager to allow them to take refuge inside. The plant, one of the country's most strategic installations is now in rebel hands.

Commander Richard Bridges of the HMS Jupiter said that numerous *attempts* had been made by the Britannia to pick up the stranded foreigners two *days ago at Khormaksur,* but heavy fighting and poor weather had meant the process was *extremely slow and dangerous.*

Located close to the airport, the area of the Soviet Embassy has seen some of the heaviest fighting, and the top storey of the main building had been knocked out, said Commander Bridges.

Apart from sporadic outbursts at Steamer Point, fighting *had* died down, added the Jupiter commander. The area of Steamer Point is close to *the last remaining district held* by the forces of President Ali Nasser Mohammed in the *capital.*

However, reports indicate that loyalist tribesmen from *the Abyan area are converging* on Aden to come to his assistance.

The *defeat of President Ali* Nasser is by no means a *fait accompli* say diplomats in Djibouti. President Ali Nasser has tribal support from Abyan and Shebwa, as well as within the armed forces. This represents around 700,000 out of a population of about 2m people. For the rebels to impose their will on loyalist territory could prove a divisive process which would hinder the establishment of a formal leadership structure by the rebels. "They cannot form a *government,* they have to negotiate with Ali Nasser," commented one Arab *diplomat* in Djibouti.

Death toll rises in S African tribal clashes

BY ANTHONY ROBINSON IN JOHANNESBURG

THOUSANDS of Xhosa-speaking Pondos fled their shanty towns *south of Durban yesterday as* fierce fighting between Zulus and Pondos broke out again leading to *a* least 30 deaths and the arrest of 500 Pondos.

The fighting appeared to be a recurrence of the conflict between the two tribes over land rights and the authority of Zulu chiefs which first broke out in November and erupted again on Christmas Day. Some 100 people have died so far in this tribal fighting.

The latest outbreak began when Pondos set fire to a Zulu returning home from a nearby *station on Wednesday night.* Yesterday a large crowd of 500 Pondos attacked and set fire to the home *of a member of the* Kwazulu homeland parliament but were then attacked by a Zulu *Impi* (regiment) nearly 1,000 strong.

Riot police intervened to separate the two sides which were armed with home-made guns, spears and knobkerries (fighting sticks). They arrested the entire Pondo group and confiscated weapons from both sides.

Meanwhile, 11 blacks appeared *in a Westonaria court west of* Johannesburg yesterday charged with the urder of two white *policemen after clashes between* miners and police on Wednesday. Police reported that many *of* 250 miners arrested had previously been treated by witch doctors who made skin incisions and smeared magic ointment claimed to render police bullets harmless.

● Swaziland, which like Mozambique has a joint security treaty with South Africa, has deported 28 members of the African National Congress (ANC) *to other African* countries.

Lesotho is expected to take *similar action against* ANC activists as the new military council consolidates its hold over the country. Under the terms of a proclamation issued on Wednesday the military council has vested legislative and executive authority in the hands of King Moshoeshoe II although the king's decisions are subject to approval by the military council.

Militias clash in central Lebanon

SYRIAN-BACKED militia gunners traded night-long artillery and tank fire with Christian forces loyal to President Amin Gemayel in Lebanon's central mountains yesterday, AP reports from Beirut. *Police said five combatants were killed and seven wounded.*

The battle on the eastern flank of the Christian heartland fuelled fears of a new round of all-out civil war.

It followed the arrival in Damascus late Wednesday night of Mr Elie Hobeika, President Gemayel's main challenger for leadership of Lebanon's 1.6m Christians, a week after he went into exile in France.

Mr Hobeika, 29, was flown out of Lebanon after Mr *Gemayel's forces crushed* his militia followers in a day-long battle on January 15.

The fighting *left 350 dead* and more than 600 wounded. It also wrecked a Syrian-sponsored peace pact *to end* the war that Mr Hobeika had signed and Mr Gemayel opposed.

Mr Hobeika held night-long talks with the Syrian Vice-President, Mr Abdul-Halim Khaddam, the accord's architect.

Our Damascus Correspondent writes: the Syrian authorities are leaving no doubt about their full support for Mr Hobeika — whom they refer to as "the chief of the executive committee of the Lebanese Forces" — the position *from* which he was ousted last week.

Loan curb for Sri Lanka state bodies

By Mervyn de Silva in Colombo

SRI LANKA'S state corporations and government-supported enterprises, such as Air Lanka and the country's steel, shipping and cement corporations, will no longer be allowed to raise commercial loans from foreign sources.

The Government yesterday approved this proposal of Mr Ronnie de Mel, the Finance Minister, who told the Financial Times: "My bottom line for the debt service ratio was 20 per cent of external earnings but I fear it may reach 25 per cent this year and somewhat higher next year."

In an interview, Mr De Mel said that "1986 may be the most difficult year since independence (1948). Tea prices and production were down last year and rubber and coconut prices slumped. Tourist income *has dropped 30* per cent, and foreign remittances by our migrant workers in the Middle East *show* a *downward* trend, while defence spending will exceed Rs 7bn (£180m), a five*fold increase. Despite* our difficulties in the past, Sri Lanka has had good credit rating and *I want to keep it that way.*"

The minister was particularly critical of Air Lanka and the *shipping corporation* and the liberal use by state corporations of "financial packages" which *he described* as a euphemism for commercial credit. Even non-productive projects, he said, have been financed by bank loans and gave the buildings corporation as an example.

For two years the minister has been publicly voicing IMF and World Bank views but political pressure to continue "pet projects" of some ministers has been too strong.

Japan Socialist Party shifts to the centre

BY JUREK MARTIN IN TOYKO

THE JAPAN Socialist Party (JSP), the country's second largest party, has taken what appears to be a *substantial leap* to the centre with the adoption of a new platform largely devoid of *Marxist rhetoric.*

Specifically, the JSP has announced its willingness to enter into coalitions with any *of the* other minor parties or with dissident elements of the ruling Liberal Democrats. "*Coalition* government is the inevitable agent for the development of socialism," the document says.

The new platform constitutes a signal victory for Mr Masashi Ishibashi, the JSP's chairman, who has been engaged in a protracted war with the left since assuming the leadership in 1983. Mr Ishibashi, who had seen several previous party conventions end in stalemate, *was moved to describe* this week's agreement on new policies as "an historical turn*ing point*" for the party.

He is still saddled with some old shibboleths. Officially, the *JSP is still committed* to "unarmed neutrality" and to ignoring the existence of South Korea. Mr Ishibashi *is said* to believe he can practically circumvent these restrictions, even to the point of making a trip to Seoul soon.

Ousting the LDP, however, is another matter. There is no polling evidence that the JSP has risen beyond the approximately 15 per cent public support it has held for several years, nor that centrist parties such as the Democratic Socialists and Komeito are *ready to rush* into a coalition.

Before we developed a computer system for the police, we looked at their customers.

When Surrey Police were looking for a computer they made (not surprisingly) a thorough investigation. They interviewed a number of different computer companies but they chose Burroughs' B20 Series.

Before we installed their computer system, we looked at the way people in their office actually worked. We asked who they needed to talk to inside the office and whether they needed access to a mainframe computer. (Since Burroughs also supplied the Police National Computer, this particular task was made easier but, in fact, the B20 Series can link into most mainframes).

In this case, of course, the office belonged to the CID, so at the same time as building an identikit picture of the way they worked, we looked at how their customers worked.

Already the B20 Series has been taken to the scene of the crime and housed in a local Incident Room on four major investigations. One such case was the search for the M4 rapist, which involved clusters of B20's in two constabularies linked to the Police National Computer.

The flexibility of the B20 cluster allowed one workstation to work on the M4 enquiry, while another was helping police with their enquiries into a major robbery. *In fact, they could cluster up to 64 workstations.*

As well as the B20, Surrey Police have also installed an Ofisfile, a filing system that's again designed for the way people work. As Deputy Chief Constable John Evans of Surrey Police says: "We can actually ask it something like 'man with grey eyes' and it will tell us how many times the phrase came up in interviews."

(In a fraud case, a con-man may change his name four times but he won't change his face, or the colour of his eyes.)

However, the proof of the pudding for John Evans is this: "As a cynical policeman, the great advantage for me is that operational detectives now actually want the system."

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For more information call Brian Reynolds on 01-750 1420 or write to him at Burroughs Machines Limited, Heathrow Hse., Bath Rd., Hounslow, TW5 9QL.

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Fall in oil prices forces Mexico to delay debt talks

BY DAVID GARDNER IN MEXICO CITY

MR JESUS SILVA HERZOG, the Mexican Finance Minister, has postponed a meeting with leading foreign creditor banks in New York today because of the sharp fall this week in crude oil prices.

Government officials say the price crisis may require Mexico to rethink its external financing strategy for this year.

Mexico is seeking $2.5bn from its commercial bankers and a total net new financing of $4.8bn. If the oil price fall continues, Mexico's needs will have to be revised upwards or it will be unable to meet its foreign obligations.

In Washington, Mr David Mulford, the Assistant Treasury Secretary, said the oil price fall might require Mexican financing needs to be boosted to $6bn-$6.5bn for this year. New money may be needed "relatively quickly" if the price continued to decline, he told an economic committee.

Oil earns Mexico 70 per cent of its foreign exchange and provides 45 per cent of its tax receipts, and is the key to the country's ability to keep up with repayments on its $97bn foreign debt.

Mexico aims to export 1.5m barrels a day, a self-imposed foreign sales limit on its output of 2.5m b/d

This export platform earned the country $16.6bn in 1984, but as oil prices began to soften last year, Mexico's rigid sales policy led to a drop in revenue of around $2bn.

Until last June, Mexico followed a policy of alignment with Opec's official prices, preset a month in advance, with deliveries to term customers only. Sales volume under this policy fell by half in June, the worst monthly fall since May, 1981.

The Government has since adopted a more flexible approach which follows the market by the retroactive adjustment of prices at the end of each month, and which is designed to protect market share at all costs. It also offers its customers — half of them in the US, about a quarter in Europe, and 10 per cent in Japan — a three-tier pricing system whereby European and Far Eastern customers get discounts to allow for transportation costs.

In December, Mexico cut its average oil price by $1.50 a barrel, backdated to the beginning of the month. This year's budget allows for an average price fall of $2.40 a barrel to approximately $22.

The breaching of this threshold by forward spot prices for bench mark crudes like North Sea Brent and West Texas Intermediate, which this week fell to $20 and below, threatens to unravel this equation.

The revenue loss of a $1 fall in the average oil price is $550m a year, whereas a 1 per cent drop in international interest rates represents saving of $750m on its interest bill.

US incomes rise 1.4%

BY NANCY DUNNE IN WASHINGTON

THE AVERAGE income of Americans rose 1.4 per cent in December, the biggest jump in 23 months, according to the US Commerce Department. Personal spending shot up 2 per cent, the fastest rate in more than a decade.

However, the spending and income figures for the entire year were considerably less impressive, and economists were divided over whether the December figures signalled a revival of growth or resulted from temporary factors like high car sales, wage increases and $10bn worth of farm subsidy payments.

Average income gained 5.9 per cent last year, down from 9.7 per cent in 1984. Disposable income rose only 4.9 per cent during 1985, the lowest gain since 1961.

While American incomes were gaining less, they were accumulating huge personal debts and saving only 4.6 per cent of their yearly income, the lowest rate since 1949 and down from 6.5 per cent in 1984.

Donors to consider charges on IDA loans

By Stewart Fleming in Washington

REPRESENTATIVES of the 34 nations which provide funds for the International Development Association (IDA), the soft loan arm of the World Bank, are expected to debate far reaching changes in the way the agency operates when negotiations open in Paris next week over the next increase in its funding.

Among the contentious issues which donor nations, lead by the US, are expected to raise alongside the key issue of how much to increase IDA's funds, are whether or not the IDA should start charging a rate of interest on its loans, whether the maturity terms should be shortened from the current 50 years and what other conditions, if any, should be tied to its loans.

Officials say the more positive approach which the US adopted towards the multilateral development agencies at the annual meetings of the World Bank and the International Monetary Fund in Seoul, South Korea, in October, is an encouraging sign.

Domestic political pressures however, particularly on government budgets, will make it hard to achieve a substantial increase in funding for the IDA.

Budget pressures are particularly acute in the US with its huge federal deficit of over $200bn. In addition it is the US which is perceived to be the country most anxious to tighten up the terms and conditions attached to IDA loans.

The last IDA replenishment, completed in January 1984 provided for only a $9bn increase in IDA funding over a three-year period and was a bitter disappointment to World Bank officials. Subsequently agreement was reached on a separate special facility for sub-Saharan Africa of $1.3bn.

International concern about Africa which has intensified over the past two years, will, officials hope, help the IDA secure a more generous increase in its funding but they are careful not to put any figures on their expectations ahead of the talks.

No firm results are expected out of next week's meeting.

Jimmy Burns reports on the political effects of a fourth general strike

Frayed nerves in Argentina

THE TEMPERATURE is rising once again in Argentina, and not just because of the stifling humidity of the local summer.

Since just before Christmas, national life has been disrupted by an incessant wave of stoppages, mainly in the states sector. These have frayed the nerves of the general public and propelled the country's only major trade union organisation, the General Confederation of Labour (CGT) on a collision course with the government of President Raul Alfonsin. Today the confrontation will reach a new peak with the fourth general strike to be declared since the end of military rule in October, 1983.

Union officials insist their anger is directed less at Mr Alfonsin personally than at his economic policies, since the President is still seen as the main bastion preventing the return of military rule. But for Mr Alfonsin the current tug of war with labour has focussed on a matter of principle. The CGT, spawned by General Juan Peron in the late 1940s, as the linch-pin of his corporate state, has never distinguished itself as being a democratic institution. To give in to the CGTs demands now, Mr Alfonsin's aides say, would plunge Argentina once again into a hyper-inflationary spiral. It would also undermine the very fabric of the state.

Such apparently irreconcilable positions have been made all the more tense by Mr Alfonsin's recent public allegations that the traditionally Peronist-dominated CGT was being infiltrated by communists and Trotskyites bent on revolution. This attitude is a striking contrast to the position a few months ago when both Government and labour officials talked enthusiasically about the need for a broad social pact capable of making democracy more solid.

This earier reconciliation was abetted by the initial success of last June's prices and wages freeze, which reduced monthly inflation from 30 per cent to 2 per cent and opened up the prospect of economic recovery. Union officials, faced with overwhelming public support for the measures, were forced to concede that inflation was the greatest tax on the working man.

The honeymoon, however, proved short-lived. Some companies which had already been suffering from the cumulative effect of inflation and recession, found their problems compounded by a new squeeze on borrowing.

There were sharp cuts in government spending, and lay-offs followed, triggering new militancy among the unions.

Since September, some manufacturing sectors have reported a limited recovery, but this has been insufficient to hold back the growing labour offensive spearheaded by the state sector. Union leaders have been forced to adopt more radical positions by their shop stewards and left-wing-dominated rank and file.

The latest wave of strikes has had a fundamentally economic cause. Real salaries have fallen by an average of 12 per cent since June because of the Government's inability to match wage constraint with an effective control on the complex army of middle men and small-scale retail outlets. With an inflation rate of 26 per cent since June, an increasingly large sector of the working population is finding it once again hard to pay the bills.

Against the background of reports that the IMF is once again insisting on tighter fiscal and monetary discipline as a precondition for helping Argentina pay its foreign debt, the unions have isolated the banks as the main culprits.

Today's general strike calls for a moratorium on debt repayments as a way of rechannelling resources back into wages.

A repudiation of the debt has long been a convenient rallying call for the Argentine opposition, which now sees itself inadequately represented in parliament. But the ability of the CGT to move beyond the essentially symbolic nature of today's protests to more dramatic forms of action against the Government in the months ahead remains another matter.

Argentina's trade union movement is not what it was. The bankruptcies combined with the political repression which occurred during the former military regime seriously weakened the CGT's membership base, leading to the emergence of a growing population of self-employed and a significant shrinkage in the traditional labour strongholds. The Metal Workers' Union (UOM) which boasted over 300,000 members when it helped precipitate the fall of the last democratically elected government in 1976 has seen its membership halved in the last decade.

Significantly, the wave of strikes preceding today's protests did not substantially affect the private sector, where employers have increased fringe benftits as a bonus to the 5 per cent productivity linked increase decreed by the Government just before the new year.

The Government expects the strike, like previous stoppages, to paralyse the working day. But it hopes that the prospect of being without jobs could undermine the militant call for an all-out assault, exacerbating rivalries within the trade union movement which Mr Alfonsin appears bent on exploiting.

Mr Alfonsin, meanwhile, is gambling that a recovery in the export sector and an inflow in foreign capital will eventually pave the way for a reconciliation with moderate sectors of the CGT he regards more in tune with the popular vote.

BOLIVIANS STAGE GENERAL STRIKE

Bolivian workers staged a general strike yesterday against the government's economic policies only hours after President Victor Paz Estenssora swore in a new cabinet committed to controlling inflation, Reuter reports from La Paz.

The 24-hour strike closed down factories and mines and disrupted rail service, but shops in La Paz remained open and public transport in the city was largely unaffected.

The President reshuffled his cabinet to breathe new life into his anti-inflation drive, appointing Senate President Gonzalo Sanchez de Lozada to the post of planning minister, head of the government's economic team. The centrist president brought 11 new faces into the 18-member Cabinet, including four top businessmen.

Mr Guillermo Bedregal, the previous planning minister, who had been criticised by Mr Sanchez de Lozada for failing to keep a tight hold on the economy, was made foreign minister.

The President said the chief task of the new Cabinet was "to put the brakes, if it is possible, indefinitely, on hyperinflation."

Striking meat processors face fresh threat

BY TERRY DODSWORTH IN NEW YORK

TRADE UNIONS fighting a bitter five month strike over wage cuts at Hormel, one of the leading US meat processing companies, faced a serious challenge yesterday when the group's Austin plant reopened following the intervention of the National Guard in the dispute.

Mr Rudy Perpich, the Governor of Minnesota, ordered around 800 national guardsmen into Austin earlier this week in response to complaints about violence in the town. After an initial confrontation with strikers, roads to the plant were opened by the guardsmen and local police, and yesterday workers entered the plant and registered for employment.

Mr Deryl Arnold, the plant manager, refused to say yesterday how many workers had entered the building, but he claimed that a number had been interviewed and given jobs. The build up in production, he added, would be gradual.

The dispute at Hormel, which has plants around the country but is based in Austin, has become the most prominent battleground for the US trade union movement's fight against the trend to reduce wages in many basic industries.

The company claims the hourly rate of $10 that it is offering the 1,500 Austin workforce remains substantially better than rates in the rest of the industry, which are sometimes as low as $8.50 an hour. The $10 figure was reached after several arbitration hearings which increased the company's initial proposal of $8.25 an hour, but it remains under the $10.69 paid at the Austin plant until last August.

The union sees itself as struggling against the trend to cut wages and living conditions

ABC gives go ahead to controversial TV series

"AMERIKA," the TV series Moscow wanted killed, has survived political pressure and the ABC network has decided to go ahead with production of the film depicting the US under fictitious Soviet rule, AP reports from New York.

The proposed 12-hour series has been in production limbo for several weeks, but it received approval from ABC this week. Production will start in two months, ABC said, and it is to be broadcast in Spring 1987.

"In light of the inherent dramatic quality of the material, the decision to present 'Amerika' was an easy one," said Mr Brandon Stoddard, president of ABC Entertainment, a division of ABC.

But political pressure suggested otherwise—first from the Soviet Union to cancel the project in the name of detente, then from a Reagan Administration official to carry on with the production in the name of freedom.

Two weeks ago, Mr William Bennett, Secretary of Education, said postponing the filming was "a bad lesson for our children.

Soviet Embassy officials in Washington were not available for comment.

US to phase out use of all asbestos

THE US Environmental Protection Agency (EPA) announced yesterday it intends to ban immediately five product categories containing asbestos and phase out all other asbestos use over 10 years, AP reports from Washington. "We are taking this action because of the significant and well-documented threat to health that asbestos represents," Mr Lee Thomas, the EPA administrator, said.

It could take as long as a year to complete work on banning the five product categories, which he said account for about one-third to one-half of the estimated 300,000 tons of asbestos used in the US annually.

The product categories are: saturated and unsaturated roofing felt, flooring felt and asbestos felt-backed sheet flooring, vinyl-asbestos floor tiles, asbestos-cement pipe in fittings, and asbestos clothing used by firefighters.

Britain in bid to win £700m Indian defence contract

BY JOHN ELLIOTT IN NEW DELHI

BRITAIN is offering India an advanced long-range version of its 155mm field howitzer gun in an attempt to win a £700m defence contract against tough Swedish and French competition.

For the past few weeks, the Indian Ministry of Defence has been negotiating only with France and Sweden. But Britain hopes to be included on the short list along with these two competitors, having offered a new version of its FH-70 gun with a range of 40km which it produces in partnership with West Germany and Italy. Earlier offers had a 30km range.

This is one of the biggest defence orders available internationally because India wants the full order of 400 guns, ammunition and towing vehicles delivered within 30 months of a contract being signed.

This would be followed by transfer of technology for full production in India.

The Government is believed to have discussed covering some of the costs with counter-trade arrangements. It is seeking major financial concessions which are believed to have led to reductions in prices offered last year to about £710m from both France and the UK and £740m from Sweden.

A fourth bid from Austria, which was the lowest at £650m, has been dropped from final negotiations, partly because of performance problems with the Voest-Alpine GNN-45 gun, companies started tendering in 1979.

The Indian army is now believed to be pressing the Ministry of Defence to place an order quickly because it urgently needs to improve its artillery.

At present, it is out-classed by US-supplied M-180 guns used by Pakistan with which it has fought three wars and has frequent border clashes.

The Swedish Bofors-77 gun has impressed the Indian army. But it is the highest priced, is not backed with as much financial aid as the French competitors, and is of complex design.

The possible order is also being criticised in Sweden by anti-war protest groups.

The French gun, made by Giat appeals to the Ministry of Defence because it is the newest of the designs on offer from the three countries and is only just entering production.

The British offer, which is being marketed by the Government-owned International Military Services, involves a gun produced with a 30 km range since 1980 by Vickers Ship building of the UK, Rheinmetall of Germany and Otto Melara of Italy.

Ammunition would be provided by a number of companies including Royal Ordnance factories of the UK and Rheinmetall, and towing vehicles would be supplied by Man of West Germany.

This offer fell from political favour with the Indian Government last year at a time when British bids for a variety of projects were running into trouble. But it has now been revived with the launch recently of the long-range gun.

New Delhi calls tenders for offshore oil search

BY OUR NEW DELHI CORRESPONDENT

INDIA yesterday formally announced that it is inviting bids from international oil companies for exploration of 27 offshire oil blocks.

This is the third round of oil bids launched by India and includes for the first time a siesmic option to allow companies to abandon contracts if surveys produce poor results.

Signature and production bonuses required in earlier rounds have been abandoned in an attempt to persuade oil companies to make bids. Tax concessions have been introduced and contracts would be on a production-sharing basis with the Government-owned Oil and Natural Gas Commission, and oil India.

The blocks offered are in the Saurashta Basin and the Kerala-Konkei Basin on the West Coast, and basins of the Cauvery Krishna-Godavari, Palar and Mahand Mahanadi on the East coast.

Fokker finds its feet in the short-haul market

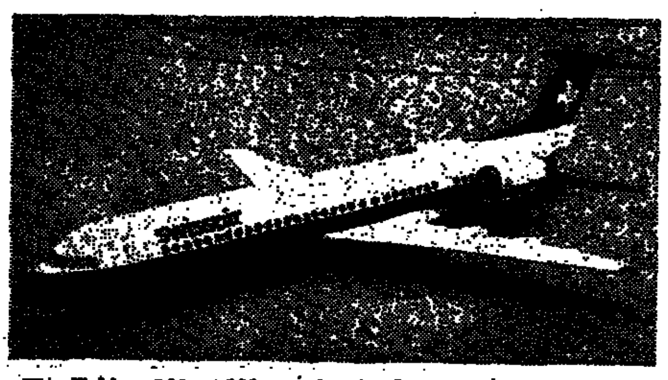
BY LAURA RAUN IN AMSTERDAM

FOR THE first time in years, Fokker seems to be in the right place at the right time. The Dutch aerospace company has suffered an erratic decade marred by red ink, an aborted venture with McDonnell Douglas and a corporate divorce from VFW of West Germany. But now it is launching two new planes into a buoyant market and has a record number of orders and prestige buyers last year.

In hand are 38 sales and 10 options for the new Fokker 50, a 50-seat prop-jet that was unveiled two years ago as a modernised successor to the venerable F-27 Friendship. The first deliveries are scheduled for a year from now, to Ansett of Australia.

Fokker's other new plane is the Fokker 100, a 100-seat fan jet launched two years ago as an updated version of the F-28 Fellowship. The order book has 38 sales plus 31 options from Swissair, KLM and the rapidly-growing USAir, which provided one of the largest contracts ever received: 20 aircraft and 20 options. The initial deliveries will be made to Swissair in the spring of 1987.

Mr Frans Swarttouw, chairman of Fokker, clearly welcomes the boom in business following the bad patch when his company was forced to seek



The Fokker 100, a 100-seat fan jet launched two years ago.

government guarantees for a Fl 60m (£15.2m) loan. The airline industry is rebounding from the slump of the early '80s and Fokker stands at the ready with a pair of planes that promise high quality, operating efficiencies and passenger comfort comparable to larger craft. "This is the first time in post-war history that aircraft have been so carefully designed hand-in-hand with the market," Mr Swarttouw said recently.

Indeed, aerospace companies worldwide have been enjoying a resurgence of demand sparked by growing air traffic, falling fuel prices and, until recently, the strong dollar (in which most aircraft are priced). The most profound development, however, has been the deregulation of the airline industry, especially in the US and increasingly in Europe.

With the loosening of regulations on fares, routes and frequencies, US airlines have been thrown into a pitched battle for passengers. A flock of new short haul carriers has entered the fray touting cheap tickets, more flights and destinations, all requiring new planes. Meanwhile large, established airlines have been forced to respond in kind with flexible schedules that demand more diverse fleets than in the past.

All this adds up to a windfall for Fokker, especially from fast-growing US carriers like USAir, Piedmont, Corsair and Empire. Americans, historically loyal buyers of the F-27 and the F-28, are filling the gap left by countries which can no longer afford as many new planes as in the past.

"Our penetration into the US is deeper," Mr Swarttouw notes, but he is proud that Fokker has cultivated customers around the globe rather than rely on a captive home market. Fokker sells fairly evenly to Asia, America and Europe with Africa and Australia following behind.

Moreover, the US and European customers are generally financially sound companies usually able to make large up-front payments, unlike some of the buyers in the early 1980s (and a couple today) who had trouble paying at all. Nevertheless, airlines are bargaining hard for favourable financing to ease pressure on their profit margins. Mid Pacific Airlines of the US and British Midland recently passed over Fokker for British Aerospace, quite possibly on the basis of financial considerations.

Discussions reportedly have been held with Olympic Airways of Greece about the Fokker 50 and with Scandinavian Airline Systems (SAS), Trans World Airways (TWA) and All Nippon of Japan about the Fokker 100. More preliminary talks on the 100-seater are believed to have been held with Garuda of Indonesia, a long-time Fokker customer.

Fokker's break-even point is 150-200 planes each for the F-50 and F-100, suggesting between five and seven years needed to recoup development costs based on planned production of 60 aircraft a year. The potential market for 50-seat planes is estimated at 1,000 and for 100-seaters at 1,250.

The Dutch company, however, has arranged the financing of the combined Fl 1.2bn development costs for the new pair. Some Fl 800m in Dutch government-backed loans, plus grants from the Netherland Agency for Aerospace Programmes, will be repaid onl yas planes are sold and delivered. About half the Fokker 100 production costs are carried on a risk-sharing basis by subcontractors such as Short Brothers of Northern Ireland, Grumman of the US and MBB of West Germany.

Fokker is equally confident about the prospects for the F-50. The twin-propeller claims the lowest seat-mile (the cost of a trip per seat) costs on the market and Fokker now claims to control 65 per cent of the market.

The big question is how long the Fokker 50 and Fokker 100 will remain competitive. Airbus, the consortium of British, French, West German and Spanish companies, plans to launch its 150-seat A320 in the spring of 1988, and by the 1990s many airlines will have finished replacing their smaller aircraft.

More threatening still is the revolutionary new propfan, an engine concept that is similar to the traditional turboprop but uses differently-shaped blades and more of them. Boeing, the world's largest civil aircraft manufacturer, announced in November that it would flight test a propfan on its proposed 7J7, claiming the fuel-efficient engine would help reduce seat-mile costs by 60 per cent compared with conventionally-powered airliners. Boeing's move could herald a trend for the industry.

Fokker has a small team of experts studying the propfan technology but Mr Swarttouw is confident that his new aircraft will remain competitive until well into the 1990s. "New technology won't break through before the 1990s and until the turn of the century we will stay up to date," he forecasts.

Czechs to build Soviet pipeline

BY LESLIE COLITT IN BERLIN

ABOUT 12,000 Czechoslovak workers, technicians and engineers will shortly begin construction work in the Soviet Union on a major gas pipeline which will give Czechoslovakia guaranteed gas supplies for the next 25 years.

The move is part of a bilateral trade agreement signed recently between Prague and Moscow. Under similar accords other East European countries will help to build the Yamburg gas pipeline from Western Siberia to Eastern Europe in return for additional gas deliveries. Hungary has also signed an investment-for-gas agreement.

The Soviet Union stipulated joint Comecon investments in recent pipeline projects on its territory because of the growing cost of extracting gas and oil in Siberia.

Reports in the Czechoslovak press said Prague will finance about 19 per cent of the cost of the 4,600 km Yamburg pipeline and the exploitation of the vast Yamburg gas field. In return it will receive "preferential rights" to gas supplies.

Czechoslovakia is to build a a 360 km section of the Yamburg pipeline east of the Czechoslovak-Soviet border. It will also deliver eight compressor station, six of which are to be built on internal Soviet pipelines from the Yamburg field.

Officials in Prague said it would be difficult to meet the completions scheduled — the 360 km section and two of the compressor stations are due to be installed by mid-1988.

Czechoslovakia is also to help construct a gas complex at Karachagansk in the Urals and build "industrial bases" for natural gas production.

The volume of work on the gas complex was said to be about the same as that for the pipeline. Czechoslovakia will also build a 220 km section of a gas pipeline in the Tula area

It is unclear how much equipment Moscow will have to import from the West for the Yamburg pipeline as Soviet and East German industry in recent years have developed equipment for pumping stations.

EAST GERMANY expanded its foreign trade last year by 3.5 per cent, well short of its target of 8 per cent expansion, Leslie Colitt writes. The value of foreign trade rose to Valuta marks 180bn, about DM 130bn (£33bn). Valuta marks are used to calculate trade figures.

Trade with the Soviet Union and the rest of Comecon rose 4 per cent and with the West by 2.4 per cent.

Total trade surplus with the East and West amounted to Valuta marks 7bn. West German analysts said East Germany managed to further reduce its net debt to the West by $1.8bn to $5bn. This figure does not include West Germany.

Athens given warning on shipping

By Andriana Ierodiaconou in

THE NUMBER of vessels carrying the Greek flag will continue to shrink unless the Government adopts proposals for a more favourable labour and tax regime for the shipping industry, the Union of Greek Shipowners has predicted.

A package of proposals for a national shipping policy was submitted by the union to the Prime Minister Mr Andreas Papandreou.

Mr Stathis Gourdomichalis, the union's president, said 450 ships abandoned the Greek flag in 1985, against 311 in the previous year. Putting obstacles in the way of the shipping industry amounted to "foreign exchange and employment suicide," he said.

The union is calling for a two-year freeze on tax increases and the restoration of legislation reducing the crew complement by two to three persons on average

Sweden's paper industry 'will experience downturn'

BY TONY JACKSON

THE SWEDISH paper industry will experience a downturn in 1986, according to Mr Bo Wergens, Director General of the Swedish Pulp and Paper Association.

Mr Wergens said that demand next year in Europe should show growth of 1-2 per cent, similar to that in 1985. Profits in 1985 had fallen 30 per cent from the exceptional levels of 1984, and should fall further ths year, but only to an "acceptable" level.

Pulp prices had fallen by 30 per cent during 1985. "With the possible exception of Brazil, everyone is losing on pulp jrices at present, in North America as well as in Europe," Mr Wergens said.

Non-integrated producers had therefore had a good year, in contrast to 1984, when high pulp prices had given the advantage to the integrated producer.

Mr Wergens said there were indications that pulp prices were coming off the bottom. In the fourth quarter of last year, producers reduced output to cut their stocks, and had just announced prices increases of $25 per tonne.

If achieved, these increases would bring prices up to around $425 a tonne, compared with last year's high point of $540.

● Mr Bo Grafstrom, managing director of the Swedish/Norwegian newsprint consortium Press Papers, said that newspaper titles being started up in the UK should increase UK demand for newsprint by a little over 100,000 tonnes this year. The UK market has remained steady at 1.3m tonnes for a number of years.

"UK newspaper readership is already the second highest in the world," he said. "I don't think we will see a drastic increase in consumption, other than initially."

The Partnership in action. From left to right: Bernd Dublinksi, Corporate Controller for Pepsi in Germany; Curt Schade, Chase Service Products; Dietrich Kube, Chase Relationship Manager; and Roland Behringer, Accounting Manager, Pepsi in Germany.

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THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Burnett and Hallamshire

Rescue from a financial minefield

Martin Dickson charts the events which brought the UK coal mining and property group to the edge of collapse

George Helsby: architect of the coal company's ill-fated expansion

JUST FIVE years ago it was one of the most glamorous stocks on the London market, widely hailed as Britain's fastest growing company.

But last week Burnett and Hallamshire, the coal mining and property group, was only saved from the receivers when a packed meeting of its shareholders, in the dour function room of a Sheffield hotel, voted through a severe financial rescue package dictated by the company's banks.

The shareholders were in an angry mood, and understandably so, for the full horror story behind the collapse of Burnett and Hallamshire only emerged in documents accompanying the rescue deal.

The Burnett affair may lack the political drama of the Westland battle, which has overshadowed it in recent weeks, but it can nevertheless lay claim to considerable importance. For example, the company's losses are larger than those of Westland; second, the affair involves important principles of accounting; and third, it is a cautionary tale of a business going too far too fast, helped along in its early stages by an enthusiastic stock market.

"Most of the problems . . . . have come about as a consequence of a business which has expanded too quickly into activities for which it had inadequate financial and management resources," acknowledges Tom Carlile, who recently became chairman to oversee the rescue efforts.

Many observers would also argue that the company's extravagant ambitions were reinforced by its accounting methods, and its particularly heavy recourse to off-balance sheet finance. The rescue documents show that by March 1984 Burnett's overall borrowings, including hire purchase liabilities, totalled £154m, compared with shareholders' funds of £108m. Some £83m of the borrowings were off-balance sheet, albeit disclosed as contingent liabilities.

"Burnett," said one rueful banker, "carried off-balance sheet financing to a new art."

This kind of financing is often designed to present a better gearing ratio to the world. For example, company "A" may set up company "B," which is not a legal subsidiary, and therefore does not have to be consolidated into its accounts, even though company "A" is ultimately responsible for such liabilities as it has guaranteed.

Such techniques can seriously mislead the users of financial statements. The Institute of Chartered Accountants is so concerned about the practice that it recently issued a technical release both to offer advice and stimulate debate. This says members should consider the economic substance of transactions, and not just their legal form, when deciding the appropriate accounting treatment.

The Burnett story — which is likely to be cited as important evidence in this accounting debate — goes back to the late 1970s when George Helsby, the company's finance director, took over first as managing director and then as chairman.

Burnett, founded in 1921 as a coal delivery company, had grown into a reasonably sized energy business, focused mainly on coal; it was the largest opencast mining contractor to the National Coal Board.

Helsby, a short, dapper man who drove a powder-blue Rolls-Royce, had much greater ambitions and set about turning Burnett into a substantial player in the international energy business.

Burnett's share price soared as he set out on a remarkable acquisition programme, much of it financed by share issues: coal mines in Pennsylvania and South Africa, lignite reserves in Northern Ireland, property in California, feasibility studies in the Philippines, investments in Tierra Del Fuego . . . At one stage in 1981 Burnett was buying a company a month. Helsby would say to his staff: "Have we bought anything this morning?"

Expansion continued through 1982 and early 1983, even though the shares by then were well below their peak as City sceptics asked whether the company was moving too fast. A hefty rights issue did not help market sentiment, and nor did signs that the group had problems with one of its largest acquisitions — a majority stake in the South African mining group, Rand London.

Nevertheless, Helsby continued to exude optimism. In the 1983 annual report, issued in June, he declared that the stage had been prepared for "further impressive achievement" and he predicted "further substantial growth . . . . in the current year and beyond."

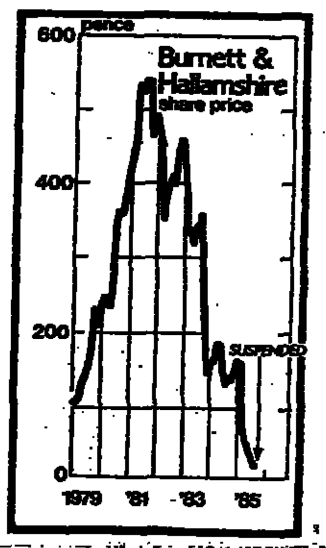
But by the end of 1983 Helsby had resigned from the group, because of "ill health," the share price had collapsed and Eric Grayson, his replacement and former deputy chairman, was reporting a slump in profits, blamed in large measure on recession in the coal industry.

Under Grayson's leadership, Burnett began to retrench. But it could not move fast enough as problems crowded in on all sides. The year-long British coal strike hit its bread-and-butter opencast operations; the Iran-Iraq war battered its construction contracting work in Iraq.

Apart from these external factors, it was trying to put right three acquisitions which had turned into nightmares: Californian property, PBS coal in Pennsylvania, and Rand London. However, as is shown below, the company's shareholders were given little indication of the severity of these problems, which were to end in a cash crisis.

● To judge from the company's annual reports, Burnett's expansion into Californian property in the early 1980s seemed at first to be going well. In 1982, Helsby spoke of it producing "substantial profits." In 1983, there was a £9.3m contribution to group operating profits of £36m from the sale of one development, Dart Square.

In all, £11.8m profits were taken into the accounts on this sale in 1982 and 1983 — but they have now had to be written off. Dart was sold to a joint venture in which Burnett had a 50 per cent share. The other partner had an effective right of withdrawal if planning permission was not obtained — which it never was — and no cash changed hands in the deal. Burnett simply took the profits on the sale into the balance sheet as a debtor.



This news prompted one angry shareholder to ask at last week's meeting: "When is a profit not a profit?"

By 1984, Burnett had a commitment to six speculative developments in California, which relied entirely on the company for funding until they were completed, tenanted and sold. But it was only in August of that year that the company put a significant management presence on the ground there.

Moreover, the joint venture nature of these deals allowed Burnett to keep the substantial debt involved off its balance sheet. By the time of the 1984 accounts, its California borrowings totalled £28m-£29m, but these appeared anonymously under a general contingent liability for "guarantees amounting to £41.25m in respect of certain contracts and undertakings entered into in the ordinary course of business."

With problems mounting on all sides, the company tried to reduce its exposure in California, but a downturn in the property market and a change in tax legislation aborted two sales early in 1985. This, coupled with the burden of continuing to service the debt, played a major role in triggering the cash crisis.

● The shortage of funds meant that Burnett was unable to meet the terms of a 1983 deal under which it acquired a 24 per cent stake in PBS, a Pennsylvania coal company, for $2.4m, with an agreement to buy the rest of the equity in stages for a further $7.6m.

At the time, the company said the deal had been secured on "advantageous terms." What it did not reveal —and what only emerged in the rescue operation—was that it had agreed to pay the vendors a minimum annual royalty of $7.5m a year for 22 years, irrespective of whether any coal was mined, but the subsequent collapse of coal prices turned the deal horribly sour.

● Meanwhile, 51 per-cent-owned Rand London, Burnett's first big acquisition, was proving more and more of a nightmare. It was losing money from its coal mining operations and only brought these into profit in the year to last March. It and Burnett also shared the ownership of a coal terminal at Ghent, in the Netherlands, which was completed behind schedule in late 1983 and, because of the depressed state of the shipping market, lost money from day one.

But an even bigger skeleton was hidden in the Rand London cupboard: before Burnett acquired a stake in the company—and unknown to Burnett—Rand London's principal subsidiary had committed itself to an onerous five year shipping contract which, it later transpired, it could not meet.

To prevent its probable collapse, Burnett agreed to buy the ship involved—the MV Hallam Venture—on hire purchase of $27.4m.

To keep this off its balance sheet, the deal was done through a new company, Mincorp Shipping and Finance, in which Burnett's public relations adviser, City and Commercial Communications, agreed to hold a majority stake. Burnett, however, guaranteed the performance of the hire purchase contract and was wholly responsible for funding Mincorp's cash requirements and losses.

Although this deal was struck in 1983, shareholders were not told the details until last month's rescue operation.

There is no suggestion that Burnett acted illegally in all this. But many of its bankers and shareholders argue that while its accounts were correct in form, they failed to reflect the substance of the company's position.

Grant Thornton, which has just stepped down as the company's auditor, did not qualify the accounts before 1985.

The 1985 accounts — drawn up during the rescue operation — were heavily qualified. Moreover, the company took the view that a balance sheet drawn up in accordance with the letter of Schedule 4 of the companies act would not give a "true and fair view" of its position. It therefore published an adjusted 1985 balance sheet, alongside the normal one, showing the effect of consolidating its interests in PBS and Mincorp Shipping. Grant Thornton declined this week to comment further on Burnett's accounts.

The rescue has involved rationalisation and write-off costs in the year to March 1985 of £116m, resulting in a £4.2m deficit of shareholders' funds. These include £49m on Californian property, £13m on Middle East construction, £11.4m on Ghent, £10m on the M.V. Hallam Venture and £7m on PBS Coal, the purchase of which has been renegotiated on less onerous terms.

The package also involves the conversion of £63m of bank debt to equity, but even then the company's future will remain cloudy; borrowings will remain high relative to shareholders' funds and the group will have to carry out further disposals to repay £20m of working capital made available by the banks.

Much will depend on the outlook for coal prices—particularly in the US, where Burnett retains large Pennsylvanian interests—and at present there are few signs of an upturn.

But at least Burnett has now been stripped back to the kind of coal mining business that it knows best, and that was at the heart of the company before it got so very ambitious.

Moreover, the top management has also been extensively changed. Grayson has stepped down, to be replaced as chairman by Carlile, a widely respected former managing director of Babcock International. Burnett is looking for a new managing director and finance director, and the board is being strengthened with the appointment of additional non-executive directors, including John Mills, a former deputy chairman of the NCB.

Management abstracts

Technology and Competitive Advantage. M. E. Porter in The Journal of Business Strategy (US), Winter 85 (18 pages)

Describes the links between technological change and competitive advantage which arise out of technology's role in the company's "value chain" and its ability to achieve lower costs and/or quality differentiation; shows how technology diffusion can change industry structure—for better or worse. Discusses methods for selecting a technology strategy — which could concentrate on modest improvements rather than major breakthroughs — and for deciding whether to adopt a role of leadership or "followership," looks at the advantages and drawbacks of being a "first mover" in new technology, and the benefits and pitfalls of technology licensing. Gives advice on forecasting the evolution of technology in an industry, and the analytical steps involved in formulating a strategy for turning technology into a competitive weapon rather than a scientific curiosity.

The Caveats in Mentorship. D. W. Myers & N. J. Humphreys in Business Horizons (US), July/August 85. (5½ pages)

Points to general support for mentoring (by which less-experienced personnel are assigned to the more experienced); warns, however, of pitfalls in mentor/protégé selection (for instance, the dangers of discrimination), in the mentoring process (eg. where the mentor is too busy or is a bad tutor), and in the aftermath (eg. where the mentor falls out of favour in the organisation and the protégé suffers).

Public speaking for women. B Schlüter-Klake in Assistenz (Fed Rep of Germany), July-August 1985 (2½ pages, in German; English version available).

Maintains that men score over women participants in business discusssions; analyses what advantages they have, what women can do to be accepted on equal terms, and to what extent seminar training can help.

These abstracts are condensed from the abstracting journals published by Anbar Management Publications. Licensed copies of the original articles may be obtained at a cost of £4 each (including VAT and p+p; cash with order) from Anbar, PO Box 23, Wembley HA9 8DJ.

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TECHNOLOGY

IBM enters Risc business . . .

Louise Kehoe, in San Francisco, on the launch of a new type of CAD/CAM workstation

WITH THE introduction of the IBM RT PC this week, IBM became the first mainstream computer maker to take a gamble on reduced instruction set computer (Risc) architecture.

IBM is taking an uncharacteristic technology lead in this new and controversial style of computer architecture which has previously been adopted only by start-up innovators such as Pyramic Technology and Ridge Computers.

Other big computer manufacturers are, however, expected to follow. Hewlett Packard, in particular, is understood to be preparing to launch a Risc-based successor to its line of microcomputers.

Digital Equipment, Data General, Sperry and Honeywell also reportedly have Risc machines under development.

While few industry analysts expect Risc machines to replace conventional computer architecture in the foreseeable future, the application of Risc techniques in scientific and technical computers can be expected to grow rapidly now IBM has set its seal of approval on the concept.

Basically, Risc, as the name implies, is a computer that has fewer and simpler instructions than most. First developed at the IBM Thomas J. Watson Research Center in the early 1970s, the approach turns computer architecture trends on their heads.

Over the past several years microprocessors incorporating larger and more complex instruction sets have been developed. In contrast, Risc chips have small, simple sets of instructions.

Reducing the instruction set of a computer is analagous to restricting a person's vocabulary to a small number of short words. Charles Foundyller of Davatech, a research group in Cambridge, Massachusetts, says: "It's like pidgin English. If you say enough of those short words you can get lots of complex ideas across without having to know much English.

"And if you can say short words faster, then you may end up getting your ideas across more quickly."

In computer terms, short instructions are much faster than long ones. And Risc researchers found that computers use the same few basic instructions most of the time. This is particularly so in scientific and engineering applications where many of the programs are produced by compilers (computer language translators) that do not take as much advantage of the "rich language" of complex instruction sets as the hand-written codes of business programs.

So the instruction set on the IBM RT PC microprocessor is reduced to basic often-used commands, such as add, subtract, shift and compare, that it can execute in a single machine cycle, about 170-billionths of a second. The micro's operation is speeded because it has fewer instructions to search through and its basic commands are easier to execute.

. . . and takes aim at a fledgling industry

WHENEVER IBM enters a new sector of the computer market, it threatens the established players. This week's introduction of a high performance engineering workstation for computer aided design, manufacture and engineering is no exception.

The announcement is seen as the next step in IBM's determined efforts to conquer the market for engineering and technical computing where it is currently at its weakest.

With the IBM RT PC, IBM is muscling into a field dominated, until recently, by a band of start-up companies which have ridden the wave of success in a high growth market. Sales of engineering workstations are expected to grow from $735m (£522m) last year to $1.1bn in 1986 and $2.5bn by 1989, says Dataquest, a market research company.

Daisy Systems of Mountain View, California, Mentor Graphics of Portland, Oregon, and Valid Logic, of San Jose, California, pioneered the CAE workstation business and continue to be market leaders.

Dozens of software companies have developed CAD/CAM and CAE products for different engineering problems. And two more start-up companies, Apollo Computer of Chelmsford, Massachusetts, and Sun Microsystems of Mountain View, California, have built their businesses on supplying workstation hardware.

The desktop version of the IBM RT PC.

Recently, Digital Equipment Corporation has also established itself as a big hardware supplier in the CAD/CAE market with its Microvax comupters.

IBM will have a big impact in this market. "For 1986, they will sell 20,000 to 25,000 units," predicts Egil Juliussen, chairman of Future Computing, a market research firm. "With an average selling price of between $15,000 and $20,000 that is half a billion dollars in sales." The base price of the RT PC is $11,700, not including software or a monitor.

The role of the engineering workstation is essentially that of the engineer's personal computer. But because of the nature of his or her work, the engineer requires performance and features that are not found on general purpose PCs. Superb highly refined graphics capabilities are a must for complex circuit diagrams, drawings of three-dimensional designs and plots of complex data. Number crunching speed is needed to boil down chunks of numerical data.

The new IBM workstation uses a proprietary 32-bit microprocessor that will be difficult for competitors to duplicate and a new operating system that combines AT & T's Unix with IBM-developed enhancements and 1 trillion (million million) characters of virtual memory. Up to eight users can share an RT PC using terminals. With an optional add on board, the RT PC can be made compatible with IBM's PC AT personal computer.

With the RT PC, IBM is offering several application programs, including its first integrated circuit design program and programs for developing complex drawings, processing, analysing and displaying numerical data such as geographical surfaces and subsurfaces for oil exploration.

Its success, however, will be largely determined by the willingness of third parties to develop software for it.

Charles Foundyller, of Davatech, a research group in Cambridge, Massachusetts, says: "Although the RT PC is a very capable piece of equipment it will not be available until March and it uses a new operating system which could delay the flow of essential software applications."

Both factors will give competitors a little breathing space—time in which to regroup and respond to IBM's new challenge, he says.

David Lascelles on an extraordinary banker

Banking on a high-tech expert

Bill Murphy: a coup

ALTHOUGH new technology is reshaping the banking business, root and branch, most UK banks are run by people trained as bankers rather than experts in computers and electronics.

A rare exception is Western Trust and Savings, a licensed deposit-taker based in Plymouth. Its new managing director, Mr Bill Murphy, spent his formative career years in computer technology. He specialised in banking later.

Not that Mr Murphy is at an advanced age. Still only 38, he took over the top job last August and should live to see plenty more change in banking. But he and colleagues have already won Western Trust a reputation far beyond its size for turning new technology to good account.

He recently scored a coup by licensing a $1m (£710,000) banking software package to Citibank Savings, the UK subsidiary of the New York banking giant, which prides itself on its technological excellence. "They evaluated the market very carefully. It's an important endorsement for us," he said.

Mr Murphy started his career on the computing side of companies such as Hill Samuel and ICI. He moved to Citibank in the 1970s to work in its European Systems Group in France, Switzerland, the Gulf, Belgium and the UK, specialising in retail banking.

From 1976 to 1980 he worked in corporate banking in Brussels. Then he joined the Royal Bank of Canada, Canada's largest bank, which had just bought Western Trust and Savings as an entree into the UK retail banking market. Mr Murphy was given the job of automating it.

As banks go, Western Trust was tiny: a balance sheet of £100m and about 30 branches scattered around southern England and the Midlands. But the Royal Bank was prepared to invest several million pounds to make it one of the most technologically advanced banks in the UK.

"We have had the luxury of automating the bank from top to bottom," he says. "The Royal decided that having gone into the market it needed a slick adminstrative base and a flexible customer service operation."

Mr Murphy also decided to expand the bank by using technology rather than bricks and mortar. Two things resulted:

One was the creation of Tamar, a software system for retail banking, which is now the basis of a service which the bank is offering to other institutions. (Tamar is the name of the river separating Devon and Cornwall. The other is the bank's participation in the Link consortium, the ATM (automatic teller machine) sharing network of banks and building societies.

It is Tamar that has been licensed to Citibank. It enables the user to keep a composite picture of a customer's relations with a bank: the state of his account, his borrowings and other dealings, like insurance, and personal details. This is seen to be a useful tool for marketing other financial services.

Armed with it, Western Trust is trying to set up agency banking with retailers which will enable them to offer financial services, such as loans, and act as an outlet for Western Trust's banking services.

This is done through a terminal installed in the agent's premises and linked directly to Western Trust's computers in Plymouth. The programme has been designed so that non-banking retailers can understand the questions and feed in the right information.

Mr Murphy says: "Banking is basically a very simple business, though dark-suited gentlemen like to make it mysterious. I'm not sure that banking will ever be fun. But we can make it attractive and amenable to the consumer." He believes technologists must put themselves in the consumer's shoes and make sure that technology is useable.

Western Trust's first deal was with Irish Life, the life insurance company which is using Tamar to expand its range of financial services. Other insurance companies are interested.

Last month Western Trust signed on Wickes, a chain of home improvement shops, for Tamar. Wickes' customers can get credit in its stores through bank terminals, and obtain mortgages and other financial services such as insurance. They can even open a bank account: the cheques are labelled Wickes but the small print makes clear Wickes is the bank's agent.

Mr Murphy sees scope for extending the service to other retailers, especially those with a good local reputation who will give the bank a strong start in new markets.

He is also aiming at small independent professional firms such as estate agents and solicitors who might want to offer financial services.

It is extending its reach through Link, which it helped found with National Girobank. Link now has 24 members, including many of the UK's largest building societies, Citibank Savings, American Express, Diners Club and the Co-op Bank. The first Link machines are already working: there should be 1,000 of them by the end of the year, and possibly double that by the end of next, making it one of the largest ATM networks in the UK.

But technologically oriented though he is, Mr Murphy stresses that the bank is still basically in the business of retailing financial services, and that technology must remain a means to supplying them and not an end in itself.

"We do not see ourselves being directly in the software business," he said. Because of this, the bank has engaged Software Sciences, the software subsidiary of Thorn EMI, to market, instal and provide after sales support to licensees of the Tamar system.

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R and D spending up in US

INDUSTRY in the US is stepping up its support of research in areas such as electronics, communications, sensors, advanced machinery and energy use, according to a study on research and development for 1986 by the Battelle Institute.

The US's total research and development bill for the year will be $116.8bn (£83bn), an increase in real terms of 4.4 per cent on 1985, the study says. Of the total, industry will contribute 49.8 per cent and the US Government 46.7 per cent with the rest coming from academic and non-profit organisations.

According to the study, the aerospace industry in the US will be the leader in spending, accounting for $18.8bn, of which 78 per cent will be funded by the US Government.

Other industries rely more on their own funds. Communications will spend $17.7bn (60 per cent funded by industry) and electrical machinery $11bn (87.5 per cent from industry).

The chemical industry will spend $9.8bn (94.2 per cent from industry); car and transport $7.7bn (88.8 per cent from industry); and professional and scientific instrument companies $7bn (83.6 cent from industry).

Details from Battelle Institute, Columbus Division, 505 King Avenue, Columbus, Ohio 43201-2693.

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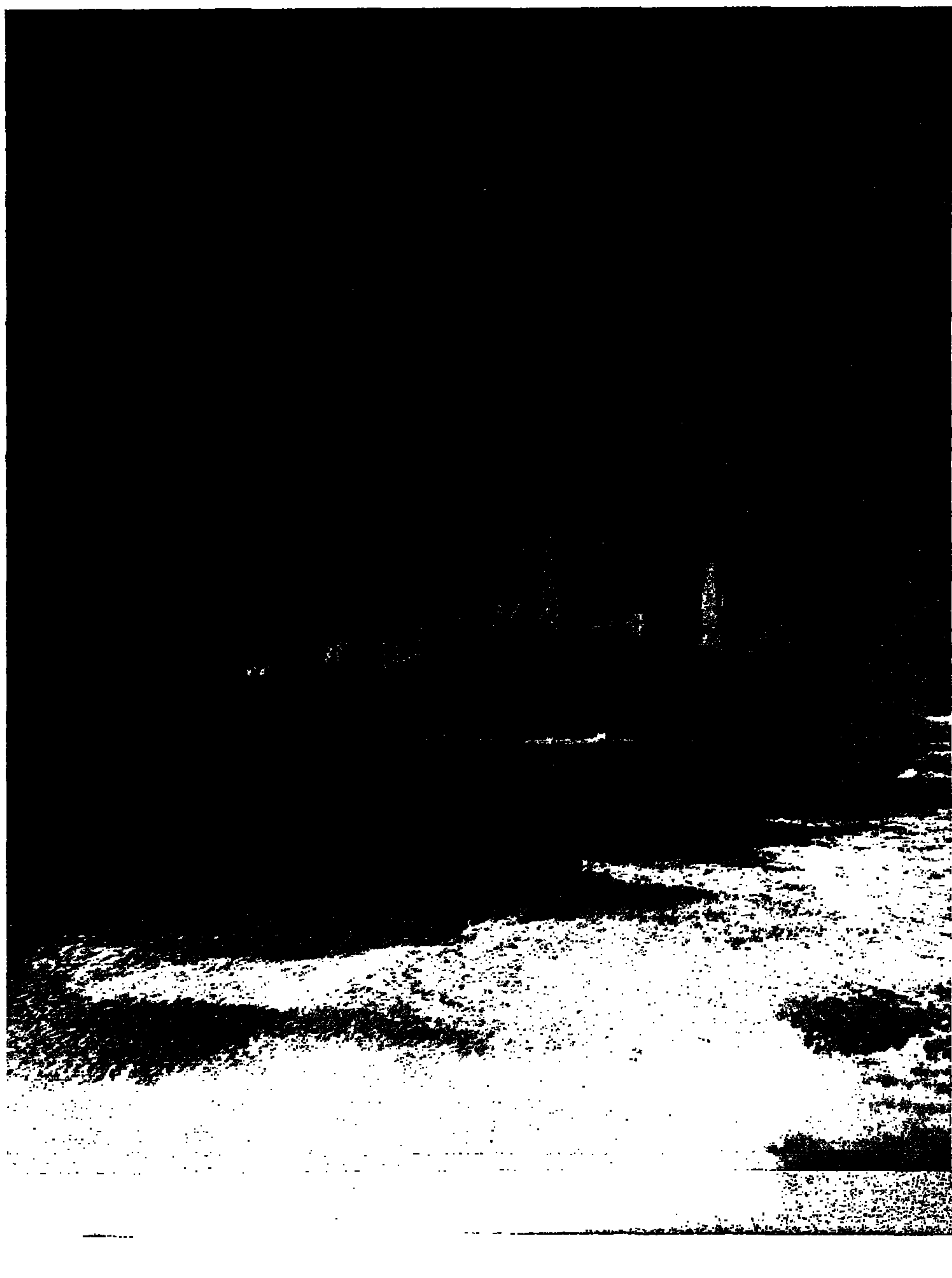

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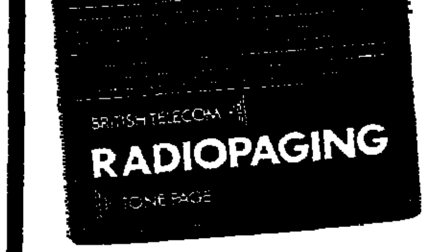

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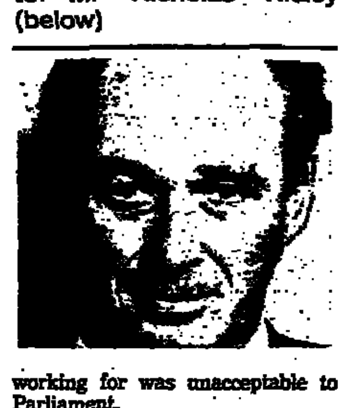
UK NEWS

Transport Secretary who has gained ground

Malcolm Rutherford talks to Mr Nicholas Ridley (below)



IN A MORE settled political climate, Mr Nicholas Ridley, the Transport Secretary, might have been rather more in the news this week. He did, after all, announce to the House of Commons the agreement on the Channel tunnel, something which is likely to be around long after present turbulence has died down.

Mr Ridley is an odd figure in Mrs Margaret Thatcher's Cabinet. He was a rebel against Mr Edward Heath when the previous Tory Government turned interventionist about industry in 1972–74. He is widely credited with having advised Mrs Thatcher on how to deal with unruly trades unions during the period of Conservative opposition. But he was given only a junior job at the Foreign Office when the Tories returned in 1979. Recently he has gone from strength to strength.

The Foreign Office, he says now, was a sabbatical, but a useful one. It taught him to negotiate. He dealt with Belize and its problems with neighbouring Guatemala successfully. He dealt with the Falklands and Argentina unsuccessfully, but through no fault of his own. It was the House of Commons that turned down his lease-back idea which, if it had been accepted, would have prevented the Falklands war.

He had a brief stint at the Treasury as Financial Secretary. On about his first day, the chief permanent official told him that interest rates were going up by two percentage points. "So what?" he replied. Interest rates, he says, are always either going up or coming down, an attitude he claims still to hold even this week.

He went to Transport and into the Cabinet after the Cecil Parkinson scandal in October 1983. From there he has some title to say that he has resolved one problem after another. At least he has taken the heat out of them: airports, bypass roads, deregulation of airlines and now the Channel tunnel.

There is a philosophy behind it, which Mr Ridley says he learnt at the Foreign Office. It has two parts. One is based on the doctrine of ripe or unripe time. If the time is ripe, you must seize the opportunity. But there is also a matter of political and intellectual judgment. On the Falklands he was intellectually right, but politically wrong in the sense that the settlement he was working for was unacceptable to Parliament.

The other part of the philosophy is based on the deliberate creation of doubt. If you are in a complex negotiation, Mr Ridley says, you must first persuade all the protagonists that it is likely to fail. It means suggesting confusion in your own mind as well.

You tell everyone that they have lost, and then you ask whether it might be possible to rescue something from the wreck. In that way you can establish the bottom line of all the parties involved. Then you can start negotiating again, this time seriously.

That was more or less what happened in the re-allocation of routes between British Airways and British Caledonian. It happened again on airports policy, where Mr Ridley gave something to almost everyone: some expansion at Stansted, north of London; some at Heathrow, London; and a sop to the northern regions.

It also means not settling everything at once. Airports policy will come again in the early 1990s if air travel continues to grow. But at least it means that you have settled something.

Mr Ridley has a rooted objection to public inquiries of the kind that has been going on over the proposed nuclear power station at Sizewell and has been avoided over the Channel tunnel. He says that they take too much time and that ultimately they are not democratic because, in the end, it is the minister who decides.

He said in a speech last summer that there was an "alliance of objectors" to new projects, the result of which was that "it takes a little more than 12 years on average, from conception to birth, to build a new road... We have brought a sort of paralysis upon ourselves in the matter of getting things built."

The Channel tunnel is part of the step-by-step approach. Once the British and French governments had decided they wanted to build something, they went ahead and drew up the specifications. Mrs Thatcher would have preferred a road link, as would the French. The two sides decided, however, that it would not be practical at present. There were geological difficulties and the finance was not certain. The British Prime Minister seems to have played very little part in the negotiations.

The procedure will still be democratic, Mr Ridley says, because a bill has to go through both Houses of Parliament. It will be a hybrid, which means a public bill that may in certain respects affect private rights.

That means in turn that there will have to be a special select committee – not related to the Department of Transport – obliged to hear petitions from anyone with a remotely relevant complaint about the project. It will be at least the spring of 1987 before the proceedings are finished.

Airport policy and the Channel tunnel are the big subjects, but there are others. Mr Ridley identifies a relatively new problem; how to deal with the development of the infrastructure by the private sector. It is coming up again in the next week or two when the Government publishes the guidelines for the competition to build the new Dartford tunnel under the Thames east of London, and probably again in London's Docklands. The Government specifies the broad framework: then the private sector competes.

The Transport Secretary has no plans for the privatisation of British Rail and, indeed, thinks it would be impossible. But, he says, it is a matter of bringing in outsiders and subcontractors. "It's like mousetraps," he claims. "You might build the best mousetraps in the world, but you would consult somebody else about legal advice or building new plant."

New trains for Channel tunnel, Page 9

Energy efficiency industry sets £1bn business target

BY MAURICE SAMUELSON

REPRESENTATIVES of Britain's fast growing energy efficiency industry forecast yesterday that within 10 years £1bn worth of annual energy spending in public buildings and factories would be administered by specialist contractors.

The target was announced in London when nine competing energy management concerns, led by subsidiaries of British Petroleum and Shell UK, said they were to co-operate to overcome resistance to energy efficiency in the private and public sectors.

The companies include BP Energy, part of British Petroleum; Emstar, part of Shell UK; and Associated Heat Services, an independent company originally founded by the National Coal Board to promote efficient use of solid fuel.

Emstar has secured about £25m worth of contracts since it was founded less than two years ago. BP Energy, launched in October 1984, is active in schools, hospitals, old people's homes, offices, factories, laundries, shopping centres, hotels and other large establishments.

Developments in the US suggest that the sector could expand rapidly. There are now 200 such companies in the US, compared with only 20 five years ago.

The UK companies have decided to co-operate as a separate group within ESTA, the trade association for the suppliers of equipment and know-how for efficient energy use.

Mr Peter Walker, Energy Secretary, said the move should help his campaign to stop Britain wasting £7bn a year by inefficient use of energy.

The contract companies claim to offer energy savings to clients that have insufficient management time or skill to achieve them unaided. Where necessary, they uprate clients' heating systems or bring in their own mobile combustion equipment and the contractor assumes any risks associated with achieving the expected energy savings.

Mr Richard Tinson, Emstar managing director, said most of its business had been in the private sector, but it hoped to pick up large contracts in the public sector.

Tax relief on N. Sea closures 'insufficient'

BY MAX WILKINSON

THE PROVISION for the running down and abandonment of North Sea oil fields are inequitable and need to be thoroughly revised, according to a study from Aberdeen University, published today.

The results, published in the first issue of the Journal of Oil and Gas Accountancy, a magazine aimed at accountants in the European industry, suggest that the reliefs for companies abandoning fields need to be more closely related to the taxes paid by their operators.

The authors, Professor Alexander Kemp and Mr David Rose, say very large sums (even by oil industry standards) will have to be spent in closing Fields in the North Sea.

The money will be needed to remove well-head structures which could become hazards to shipping, and to ensure that abandoned fields do not cause pollution.

The authors estimate the costs at anything from about $10m to more than $600m per field.

Under present rules the cost of abandoning fields can be set against tax liabilities. Expenditures are added to capital allowances and are eligible for a 25 per cent writing down allowance against corporation tax, assuming the company continues to trade.

Reliefs against Petroleum Revenue Tax and royalty payments are also available.

● Subsea Technology, a subsidiary of the French Alsthom engineering group, is to expand its Scottish base on the Firth of Forth in a joint venture with the National Coal Board.

(Advertisement)

DAI-ICHI KANGYO BANK

DKB ECONOMIC REPORT

January 1986: Vol. 15, No. 1

Japan's economy for 1986 shifting to domestic demand-led growth by the appreciated yen

Although the Japanese economy had steadily been expanding through the middle of 1985 since the spring of 1983, the growth momentum markedly slowed toward the closing months of the year. How will it fare in 1986?

Environments around the Japanese economy in 1986

The world economy is expected to see moderate growth in 1986 mainly because of the lackluster U.S. economy. The Japanese yen, which sharply appreciated against the U.S. dollar in the fall of 1985, will stabilize at around the current level of 200 against the dollar by the concerted action of the major industrial countries.

On the economic policy front, the Japanese Government will take steps to foster the private sector's growth in an attempt to prop up the economy while maintaining its fiscal rehabilitation stance. Along with the stabilization of the yen at around 200, the policy of guiding short-term interest rates higher is likely to be gradually scrapped.

Exports to slow down markedly

Exports, which have been supporting business expansion since 1983, seem certain to slow down markedly in 1986 because of the low growth of the world economy, and the lowering of export price competitiveness due to the higher yen.

On the other hand, imports are expected to increase as the appreciated yen lowers import prices and the "Action Program" (including tariff reduction and import procedure simplification) will promote imports of manufactured goods. However, imports of oil, which account for 30 per cent of Japan's total imports, are likely to increase a bit. All in all, imports will see a moderate growth next year.

As for the international balance of payments (dollar base), the expansion trend in trade balance will be maintained in 1986 because: (1) Japan's exports, which are 50 per cent larger in value than imports, easily cancel out a small gain in them; and (2) yen-denominated exports, which account for 40 per cent of Japan's total exports, translate into higher dollar value. (Imports are mostly dollar-denominated.)

Reflecting the expansion of Japan's net external balance, interest and dividend income from abroad will increase further to reduce the deficit in the invisible trade balance. As a result, Japan will continue to run a huge surplus in the current account balance.

Capital spending still firm

Growth in domestic private demand is expected to drop slightly in 1986. Since the last half of 1985, the corporate sector has seen sales and earnings slow, fewer shipments abroad and slackened investment activities. These trends are likely to intensify in 1986.

Corporate sales are expected to slow down markedly, affected by a dent in demand growth both in Japan and abroad. The lowering of operating rates will worsen profitability. The appreciated yen will seriously affect export-oriented businesses, while it will be a boon to those who use a large amount of oil and other imported energy. Overall, the higher yen will be a drag on corporate profitability.

Mirroring the market environment, businesses will hold down their investments for expansion. The intensifying technological competition, however, will force them to continue to spend capital for research and development and rationalization. Besides, continued easy money will help them maintain such investment. Under these circumstances, private plant and equipment investment will remain firm in 1986, although the growth rate will slow down somewhat.

Household sector likely to increase

The household sector in 1986 will seemingly be placed in a more severe situation than in the preceding year. Small income gain can be expected in the Shunto spring labor offensive. Reflecting a slowdown in the economy, allowances for overtime and summer and winter bonuses are expected to mark time, and employment will grow at a slower pace. On the contrary, a strong favorable factor for the personal consumption is anticipated. That is a slowdown in prices.

Stable prices will be a skid to consumption as they keep real consumer income higher. In addition, an increase in real financial assets is expected to increase the propensity to consume. All told, private consumption is likely to pick up its pace somewhat.

Housing investment will continue to increase. Prices of construction materials will be stabilized and interest rates on housing loans will be kept low due to easy money. There will be no big change in these basic matters. The Government's housing investment promotion policy as one of its domestic demand expansion measures also provides a bright prospect for 1986. Housing investment is expected to increase further if these favorable conditions are offered, considering the strong potential demand for the improvement of dwellings.

Economy faces adjustment phase

Taking these analyses into consideration, Dai-Ichi Kangyo Bank predicts that Japan's real economic growth rate in fiscal 1986 will slow down to 3.0 per cent from the estimated 4.2 per cent in fiscal 1985 and the 5.0 per cent in fiscal 1984. The Japanese economy will face an adjustment phase for the first time in the four years since 1982.

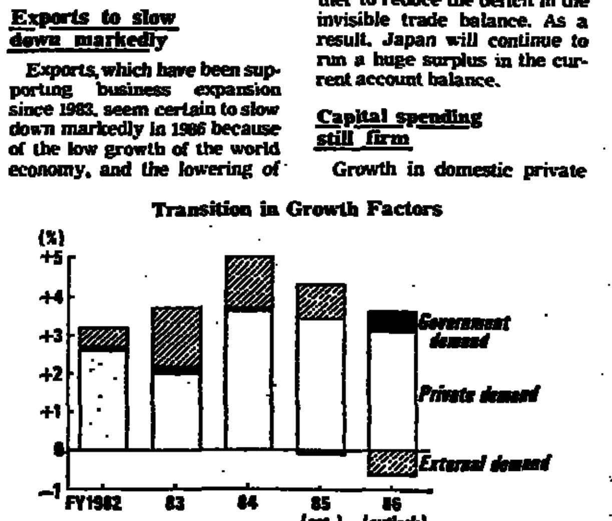
The year 1986 can be said to be a transition period for the Japanese economy in shifting from conventional "export-led growth" to "domestic demand-led growth." Optimism is not warranted, however. The task of rehabilitating finances as well as the need to maintain a higher yen bind the authorities in working out bold measures to prop up businesses. Under these restrictions, the biggest task for Japan will be finding a way to respond to demands from abroad and at home that domestic demand be expanded.

Outlook of Japanese Economy for Fiscal 1986
(Year-to-year change unless otherwise specified)

	FY1984 (actual)	FY1985 (estimate)	FY1986 (outlook)
Nominal gross national expenditures (%)	+ 6.7	+ 5.6	+ 3.7
Real gross national expenditures (%)	+ 5.0	+ 4.2	+ 3.0
Domestic private demand	+ 4.6	+ 4.4	+ 3.9
	(+ 3.6)	(+ 3.5)	(+ 3.1)
Private final consumption expenditures	+ 2.6	+ 2.8	+ 3.2
Private housing investment	+ 0.4	+ 4.2	+ 4.9
Private plant and equipment investment	+10.9	+11.2	+ 6.3
Increase in stocks	+86.0	—29.2	—11.7
Governmental demand	+ 0.6	— 0.7	+ 2.9
	(+ 0.1)	(— 0.1)	(+ 0.5)
Government final consumption expenditures	+ 2.3	+ 2.7	+ 3.2
Governmental fixed capital formation	— 3.0	— 4.8	+ 3.2
Surplus of the nation on current account	+49.2	+24.6	—13.5
	(+ 1.3)	(+ 0.9)	(— 0.6)
Exports etc.	+15.8	+ 4.6	+ 0.9
Imports etc.	+10.0	— 0.1	+ 5.1
Production and prices (%)			
Mining-manufacturing production	+ 9.9	+ 4.1	+ 3.0
Wholesale prices	+ 0.2	— 3.2	— 4.5
Consumer prices	+ 2.2	+ 1.9	+ 1.3
Balance of payments ($ billion)			
Current account balance	37.0	53.6	58.0
Trade balance	45.6	59.3	64.0

Notes: On the base of 1980 for gross national expenditures. Contribution ratio in parentheses.

Transition in Growth Factors



Note: Each factor's percentage-point contribution to real economic growth rate.

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The next DKB monthly report will appear Feb. 24.

Strike nears as Murdoch print talks collapse

BY JOHN LLOYD AND HELEN HAGUE

STRIKE ACTION at News International (NI) newspapers in the UK now seems inevitable after the breakdown of talks yesterday between Mr Rupert Murdoch, the group's chairman, and four print unions.

The group's Sunday papers – The Sunday Times and the News of the World – are the most likely targets, with the strike set to spread to The Times and The Sun next week.

Mr Murdoch said after the talks that the breakdown was "tragic" and that a strike was "very likely. I think the unions are determined to take me on."

Ms Brenda Dean, general secretary of Sogat '82, said that the proposals presented by Mr Murdoch for printers at the existing NI sites in London were "even worse" than those demanded for the new printing plant in Wapping, east London.

Mr Murdoch told the unions that he was looking for "thousands" of redundancies from the 6,000 labour force and that future contracts of employment to be signed once the existing contracts ran out in July would be legally binding. However, he also offered a minimum of five year s security of employment for those printers left in the company.

Levies are already being taken at national newspaper chapels (union branches) and calls are being made for pickets and for "local action groups" to stop distribution throughout the country.

Leaders of the five print unions, including Mr Eric Hammond, general secretary of the electricians' union the EETPU, will meet today with Mr Norman Willis, the general secretary of the Trades Union Congress (TUC) to discuss the worsening position.

The EETPU – which was not represented at yesterday's meeting with Mr Murdoch – has softened its anti-TUC stance by postponing a meeting with NI next Wednesday, in deference to Mr Willis's request for no unilateral meeting between unions and the company.

Unions at Ford back new pay deal

By David Thomas, Labour Staff

FORD UNION leaders yesterday decided to recommend acceptance of improvements to the company's pay and productivity offer, which it had described as "final" before Christmas.

Ford increased its pay offer by 2½ percentage points and dropped its insistence that individual workers must sign their acceptance of the company's productivity proposals.

Mr Mick Murphy, chairman of the union negotiating side, called the improved offer "a major climbdown" by the company.

The unions attributed the improved offer to the two to one vote for industrial action by Ford's manual workers in a secret ballot under the terms of the 1984 Trade Union Act. Previous offers were voted on by Ford's workers at mass meetings.

The new offer gives increases of between 16 and 18 per cent over two years.

The first year will see a 5½ per cent increase on basic rates plus an extra 2 per cent for about 10,000 assembly line workers, with an extra 4 per cent all round on offer for radical changes in working practices.

In the second year there will be a further 6 per cent rise all round.

Mr Paul Roots, Ford industrial relations director, said: "The secret ballot put the unions in a much stronger position, because they were completely free of the usual criticisms such as rigging ballots."

The unions and the company are to hold further discussions about Ford's radical proposals for removing demarcations and improving productivity.

Coats Patons' shares rise after confirmation of bid approach

BY ANTHONY MORETON

COATS PATONS' share price rose by 53p to 201p in London yesterday after an approach from an unnamed suitor.

The Glasgow-based company is the second largest vertically integrated fibres-to-clothes textile concern in the UK, with a turnover in 1984 of £1.08bn. It confirmed it had received an approach but dampened speculation that an announcement would be made before early next week.

Morgan Grenfell, its merchant bank, last night confirmed the approach because, it said, "it was necessary to say something following the share price movement to prevent a false market happening."

It would give no clue to the identity of the suitor other than to say that the approach was "more of a merger than a bid. Indeed, nearer a marriage." It stated that there was a commonality of interest at management level.

This suggests that the approach is from within the industry rather than outside. Vantona Viyella, Tootal and Illingworth Morris all denied having made a bid or being associated with a bid. But Courtaulds, the world's largest integrated textiles-to-clothes concern, refused to comment.

"We never make any comments on market rumours," the company said.

Within the City of London the news of the approach did not come as a surprise.

"Coats has been the most likely target for a bid in the textiles sector for some time," de Zoete & Bevan commented.

Although Coats Patons is best-known for its threads and sewing products, it has a widely diversified international business that could attract a counter-bid from a purely national producer anxious to expand overseas.

Its most famous retail names are Jaeger and Country Casuals in clothing, Byford in knitwear, Ladybird in leisurewear and Patons and J & P Coats in threads.

Last month Miss Jean Muir, one of the UK's most famous fashion designers, sold a controlling interest in her business to the concern. It is thought Coats wants to develop the Jean Muir name in opposition to Laura Ashley.

Two thirds of Coats' turnover originates abroad, with particularly strong markets in continental Europe and North America.

The great profit spinner, though, is Latin America where a turnover of £84.7m in 1984 produced a profit of £33.3m, a quarter of the total profit for the year of £125.6m.

At last night's price of 201p, Coats is capitalised at £557m.

Move to change inner-city aid

BY KEVIN BROWN

THE GOVERNMENT is planning to take powers allowing it to deprive some Labour-run local authorities of control over grants paid to private sector developers in the inner cities.

Mr Kenneth Baker, the Environment Secretary, has added the new powers to the Housing and Planning Bill due to be published today. The bill also gives the Government power to direct councils to abolish virtually all planning controls in specific areas.

Ministers say the bill is intended as a two-sided attack on delays in inner city development projects caused by "obstructive" local authorities.

Mrs Margaret Thatcher, Prime Minister, is understood to have given enthusiastic support to the bill, which will have its second reading in the House of Commons in two weeks' time and should be law by the summer.

The bill will introduce a system of urban regeneration grants under which developers will be able to apply directly to ministers for subsidies.

Grants will be for up to 25 per cent on the capital cost of projects, but the emphasis will be on large-scale redevelopment of whole areas rather than on single buildings.

The provision of jobs and housing will be an important criteria for eligibility.

The scheme will be initially funded from the Urban Programme, for which the Environment Department has been allocated £320m this year.

If grants start in the summer, as anticipated, this will inevitably mean that money will have to be diverted from some of the more marginal Urban Programme projects.

Ministers are confident, however, that new money will be allocated by the Treasury for 1987-88.

The scheme will allow ministers to bypass authorities that are said to have been less than enthusiastic in channelling public money to private developers.

The main "culprits" are said to be Manchester, Liverpool and some of the London boroughs.

University chiefs demand reform of funding policies

BY MICHAEL DIXON, EDUCATION CORRESPONDENT

UNIVERSITIES could not be satisfactorily maintained, let alone made more effective, with the funding ministers that proposed for the next decade, the committee of vice chancellors and principals said yesterday in its reply to the Government's Green Paper (discussion document) on higher education which was published in July.

The higher education leaders urged immediate changes in the policy outlined by Sir Keith Joseph, the Education Secretary, and called on him to:

- Keep the number of British-domiciled university students at least at the present 250,000-plus instead of reducing it year by year until 1995 in line with the declining 18-year-old population.
- Guarantee the universities an annual grant, to cover their operational costs, of a minimum of the current level of £1.4bn in real terms instead of cutting it by 10 per cent over the next five years.
- Provide increases of at least a quarter in the additional grants of £90.4m for research and other equipment and £25m for buildings.
- Raise government investment in long-term research – most of which is done in universities – in line with ministers' projections of a 20 to 25 per cent growth in gross domestic product over the next decade.
- Change the tax laws to encourage organisations and individuals to give money to higher education and to make fees for vocational training courses an allowable tax expense.
- Reform the student-financing system so that young people again have enough money to live on while studying, if necessary by introducing repayable loans in addition to grants.

Higher education was not a luxury. There was a need to increase the numbers studying engineering and science, but the national interest required that there should be no undervaluing of the humanities.

It was equally important to reinforce Britain's research and development activity, much of which takes place in universities.

Expenditure on that, excluding military projects, was running at only 1.6 per cent of gross domestic product compared with 2 per cent in the US and 2.5 per cent in Germany and in Japan.

But the institutions did not deny the need to improve their effectiveness. Universities needed to be more flexible about admitting students to give schools room to broaden pupils' curriculums to include literate and numerate studies up to the age of 18.

The institutions were not doing enough to develop students' personal skills

A further increase in links with companes to improve the transfer of technology from academic laboratories to industry was required, as were links between universities to avoid duplication. Company managers would have to be more willing to take the initiative in collaboration to improve employees' training.

Cuts in spending on research had led to a reduction of about a tenth in the number of British-domiciled students taking master and doctorate degrees.

There was a need for changes in the universities' systems for employing academic staff.

The Future of the Universities, committee of vice chancellors and principals, 29 Tavistock Sq., London WC1H 9EZ, £1.

New paper planned

BY RAYMOND SNODDY

ANOTHER new Sunday newspaper, with the working title of the Sunday Globe, is being planned for launch in the spring. The project is being put together by Mr Nicholas Leonard, a director and London editor of the Irish Independent Newspaper Group.

A decision on whether on not to go ahead with the colour tabloid, concentrating on entertainment and aimed at the Sunday Mirror and Sunday People market, is due to be taken in early February.

The longer term aim, if the project is successful, would be to turn it into a national daily.

It is believed that several leading regional newspaper groups and City of London institutions are interested in the venture.

If the Globe goes ahead it will have to fight its way in an increasingly crowded market.

Britain, France plan high-speed trains

BY ANDREW FISHER, TRANSPORT CORRESPONDENT

A NEW GENERATION of high-speed trains that are twice the length of those now used in the UK will be jointly developed by Britain and France for services through the proposed Channel tunnel in the 1990s.

They will be able to carry some 750 passengers at peak periods and will be about 400 metres long. British Rail's (BR) present high-speed trains are up to 250 metres and can carry about 350 people.

Mr Nicholas Ridley, UK Transport Secretary, pushed hard in last week's final negotiations on the tunnel for a rail development deal in which both countries would share equally, although France wanted its own fast train technology to prevail.

The two countries will invest about £1bn, at today's prices, in equipment, track and station facilities. BR's share will be around £400m, as it needs to spend less on the railway infrastructure.

BR will spend roughly £200m each on rolling stock and locomotives and on station and track improvements. This will include a new international terminal at London's Waterloo Station, increased passenger facilities at Ashford, Kent, and track upgrading.

It foresees a rail travel market far greater than the 3m passengers now crossing the Channel in both direction by rail and ferry or hovercraft. Mr David Kirby, joint managing director of BR, said the market could rise to 12m passengers a year when the tunnel opened in 1993, rising to 16m later.

"We will have a streamlined train that is aerodynamically efficient," he added. Trains will travel through the tunnel at about 100 mph in 20 minutes. Both BR and French Railways (SNCF) hope Customs and immigration checks can be carried out on board.

Passengers should be able to travel between London and Paris or Brussels in just over three hours, cutting two hours off the present fastest journey times by rail and hovercraft (to Paris), or by rail and jetfoil (to Brussels).

About 40 new trains will be needed, capable of operating on the different electrification systems of Britain, France, Belgium and other Eu ropean countries. They will run at a maximum frequency of four an hour in each direction.

Molins to transfer production

MOLINS, the cigarette-making machinery manufacturer, yesterday announced that it intended to close its manufacturing plant in Deptford, South London and transfer operations to its plant in Saunderton, Buckinghamshire, with a new group headquarters at Milton Keynes, north-west of London, writes Lisa Wood.

The Deptford plant, employing more than 400 people, makes packaging machinery. Molins stressed yesterday that it was in discussions with unions and as many jobs as possible would be transferred to its other plants. The move would be over two years.

Last December a £49.8m management buy-out failed at Molins. The buy-out move was largely prompted by BAT Industries, which holds a 29.9 per cent stake in the business, when it indicated that it did not view the shareholding as part of its long-term interests.

Molins, which sells more than 90 per cent of its products abroad to private and state-owned cigarette makers, has been on a declining profit trend in recent years. In 1984 it recorded pre-tax profits of £6m compared with £12m in 1978.

Over the last 18 months Molins, under strong competitive pressure in its world markets, has closed a production plant in Northern Ireland and made nearly 1,000 of its 3,750 workforce redundant.

□ TALKS aimed at settling the teachers' pay dispute in England and Wales resume today at the conciliation service Acas, with the employers expected to improve their pay offer but on strict conditions.

The employers are likely to say they will go beyond the last offer of 6.9 per cent this year, or 7.5 per cent in a full year, only if there is a guaranteed end to disruptive action in schools and a commitment by the unions to enter negotiations on salary restructuring.

□ HAWKER SIDDELEY has denied reports that the Ministry of Defence put pressure on it to bid for the management of the big naval dockyard at Devonport, south-west England. About 2,000 engineering workers walked out in protest at the privatisation plans, as representatives of Hawker and the US-owned Foster Wheeler group visited the yard.

It has also been announced that Sir Arnold Hall, Hawker chairman and one of the leading industrialists of the post-war period, is to retire in May.

□ A PROFESSIONAL fraud investigator has been recruited by the Government's Export Credits Guarantee Department (ECGD) to work in a newly created internal "fraud squad" aimed at deterring fraud by ECGD staff and outsiders and at launching inquiries into specific suspected cases of fraud or malpractice.

□ A SPECIAL delegates conference of the Civil and Public Services Association, the biggest Civil Service union, yesterday voted to reject the Government's offer of a pay determination system for civil servants and to prepare for an all-out national strike by the end of April.

Metal Box and Alcoa in plastics venture

BY TONY JACKSON IN LONDON AND TERRY DODSWORTH IN NEW YORK

METAL BOX, the UK packaging group, is to set up a $100m (£72m) joint venture in the US with Alcoa, the US aluminium producer, to make plastic food packaging.

The venture will involve the manufacture at several US sites of new forms of plastic packaging developed by Metal Box at its research established at Wantage, Berkshire, west of London.

Although Metal Box has been involved in plastic packaging in the UK for 30 years, its plastics business in the US has only just got off the ground with the test-marketing of Coca-Cola in plastic bottles in Columbus, Ohio.

However, the group has other US interests, ranging from cosmetics packaging to engineering, which last year produced trading profits of £11.6m on sales of £187m.

Mr Brian Smith, Metal Box's new chairman, said the Alcoa deal would fulfil two group objectives: to expand in the US and to develop plastics technology for the packaging of high value-added foods.

Sites for US plants for the joint venture have not yet been chosen.

In a separate statement, Metal Box said it was considering the sale of Metal Box Can, its US beverage can business.

The operation consists of one medium-sized can-making plant at Carson, outside Los Angeles, whose entire output of 1bn cans a year is taken by Pepsi Cola.

Austin Rover spends £100m on computers

BY JOHN GRIFFITHS

AUSTIN ROVER said yesterday that it had spent more than £100m since 1982 on computer-integrated engineering technology and claimed that it now had European leadership in the application of computers to vehicle design.

Mr Harold Musgrove, chairman and chief executive, said the company was in the middle of "a technological revolution which is light years away from the old concept of manufacturing industry."

Austin Rover was describing the technology strategy which it expects to take it into the 1990s. It is based on the use of a common computerised database for all aspects of the manufacturing process, from initial design to final assembly and embracing component production by outside suppliers.

Mr Musgrove said the technology had been developed to the point where new model lead times had been cut to under four years, with an enhanced ability for more frequent model facelifts and an increased number of model derivatives.

The company said it had experienced "enormous advantages" from "having Honda looking over our shoulder."

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AIR CALL

Full text of the Prime Minister's statement to the Commons

MRS MARGARET THATCHER, the Prime Minister, made the following statement to the House of Commons yesterday:

With permission, Mr Speaker, I wish to make a statement on the outcome of the inquiry into the disclosure of certain information in my Honourable and Learned Friend the Solicitor General's letter of January 6.

As the House knows, the chairman of Westland, Sir John Cuckney wrote to me on December 30, 1985 asking whether Westland would no longer be considered a European company by the Government if a minority shareholding in the company were held by a major international group from a Nato country outside Europe.

This question was of fundamental importance to the company in making its decision as to what course it was best to follow in the interests of the company and its employees.

It was therefore essential to be sure that my reply should be in no way misleading to anyone who might rely on it in making commercial judgments and decisions.

The reply was accordingly considered among the departments concerned, and the text of my letter of January 1, 1986 was agreed in detail by my Right Honourable and Learned Friend the Secretary of State for Trade and Industry, my Right Honourable Friends the then Secretary of State for Defence and the Chief Secretary, Treasury, and finally by my Honourable and Learned Friend the Solicitor General.

My letter was made public.

Two days later, on January 3, my Right Honourable Friend the then Secretary of State for Defence replied to a letter of *the same date from* Mr Horne of Lloyds Merchant Bank asking him a number of questions, covering some of the same ground as my own reply to Sir John Cuckney. The texts of the letters became public that same day.

My Right Honourable Friend's reply was not cleared or even discussed with the relevant Cabinet colleagues.

Moreover, although the reply was also material to the commercial judgments and decisions that would have to be made, my Honourable and Learned Friend the Solicitor General was not invited to scrutinise the letter before it was issued.

On the morning of January 6 My Honourable and Learned Friend the Solicitor General wrote to my Right Honourable Friend the then Secretary of State for Defence.

He said—and I quote: "It is foreseeable that your letter will be relied upon by the Westland board and its shareholders.

"Consistently with the advice I gave to the Prime Minister on December 31, the Government in such circumstances is under a duty not to give information which is incomplete or inaccurate in any material particular.

"On the basis of the information contained in the documents to which I have referred, which I emphasise are all that I have seen, the sentence in your letter to Mr Horne does in my opinion contain material *inaccuracies* in the respects I have mentioned, and I therefore *must advise that you should* write again to Mr Horne correcting the inaccuracies."

I have quoted extensively from the letter which was published a week ago. As I have already indicated, it was especially important in this situation for statements made on behalf of the Government, on which commercial judgments might be based, to be accurate and in no way misleading.

That being so, it was a matter of duty that it should be made known publicly that there were thought to be material inaccuracies which needed to be corrected in my Right Honourable Friend the Member for Henley's [Mr Heseltine] letter of January 3, which as the House will recall had already been made public.

Moreover, it was urgent that it should become public knowledge before 4.00 pm that afternoon, January 6, when Sir John Cuckney was due to hold a press conference to announce the Westland board's recommendation to shareholders of a revised proposal from the United Technologies Corporation/Fiat consortium.

These considerations were very much in the mind of my Right Honourable and Learned Friend the Secretary of State for Trade and Industry when the copy of the Solicitor General's letter was brought to his attention at about 1.30 that afternoon of January 6.

He took the view that the fact that the Solicitor General had written to the then Secretary of State for Defence and the opinion he had expressed should be brought into the public domain as soon as possible.

He asked his officials to discuss with my office whether the disclosure should be made, and if so whether it should be made from 10 Downing Street as he said he would prefer.

He made it clear that, subject to the agreement of my office, he was giving authority for the disclosure to be made from the Department of Trade and Industry, if it was not made from 10 Downing Street.

He expressed no view as to the form in which the disclosure should be made, though it was clear to all concerned that in the circumstances it was not possible to proceed by way of an agreed statement.

My office were accordingly approached.

They did not seek my agreement: they considered—and they were right—that I should agree with my Right Honourable Friend, the Secretary of State for Trade and Industry, that the fact that the then Defence Secretary's letter of January 3 was thought by the Solicitor General to contain material inaccuracies which needed to be corrected, should become public knowledge as soon as possible, and before Sir John Cuckney's press conference.

It was accepted that the Department of Trade and Industry should disclose that fact; and that in view of the urgency of the matter the disclosure should be made by means of a telephone communication to the Press Association.

I should have said that a different way must be found of making the relevant facts known.

The report finds, in the light of the evidence, that the Department of Trade and Industry acted in good faith in the knowledge that they had the authority of their Secretary of State and cover from my office for proceeding.

An official of the department accordingly told a representative of the Press Association of my Honourable and Learned Friend the Solicitor General's letter and material elements of what it said. The company was also informed. The information was on the Press Association tapes at 3.30 pm.

Mr Speaker, my Right Honourable and Learned Friend the Secretary of State for Trade and Industry was in my judgment right in thinking that it was important that the possible existence of material inaccuracies in the then Secretary of State for Defence's letter of January 3 should become a matter fo public knowledge, if posible before Sir John Cuckney's press conference at 4.00 pm that day.

Insofar as what my office said to the Department of Trade and Industry was based on the belief that I should have taken that view, had I been consulted, they were right.

My Right Honourable and Learned Friend the Attorney General has authorised me to inform the House that, having considered the report by the Head of the Civil Service, and on the material before him, he has decided after consultation with, and with the full agreement of, the Director of Public Prosecutions and Senior Treasury Counsel, that there is no justification for the institution of proceedings under the Official Secrets Act in respect of any of the persons concerned in this matter.

In order that there should be no *impediment* to co-operation in the inquiry, my Right Honourable and Learned Friend had authorised the Head of the Civil Service to tell one of the officials concerned, whose testimony would be vital to the inquiry, that he had my Right Honourable and Learned Friend's authority to say that, provided that he received full co-operation in his inquiry, the official concened would not be prosecuted in respect of anything said during the course of the inquiry.

The Head of the Civil Service did indeed receive full co-operation not only from that *official but* from all concerned.

My Right Honourable and Learned Friend tells me that he is satisfied that that in no way interfered with the course of justice: on the facts as disclosed in the inquiry, there would have been no question of proceeding against the official concerned.

Mrs Margaret Thatcher: Information had to go into public domain.

Tory MPs stunned as crisis over Westland deepens

BY IVOR OWEN

TORY BACKBENCHERS were reduced to stunned silence in the Commons yesterday as an admission by Mrs Margaret Thatcher, the Prime Minister, that Mr Leon Brittan, the Trade and Industry Secretary, and officials at 10 Downing Street were involved in "leaking" part of a letter written by Sir Patrick Hayhew, the Solicitor General, plunged the Government deeper into the crisis over the Westland affair.

Her disclosure of this bizarre outcome of the inquiry into the source of the leak — made to the Press Association in an attempt to outmanoeuvre Mr Michael Heseltine before he resigned as Defence Secretary—brought a stinging condemnation from Mr Neil Kinnock, the Labour leader, and some barbed questions from the Government back benches.

To a roar of approval from his supporters, Mr Kinnock told the Prime Minister that her "guilty" part in the attempt to subvert Mr Heseltine dishonestly and covertly would remain with her as an unerasable stain for as long as she occupied 10 Downing Street.

In a scathing denunciation of the entire episode, he said it was the action of a Government *which was "not just rotten to* the core but rotten from the core."

Mr Kinnock, who will return to the attack when he launches a three-hour emergency debate in the Commons on Monday, contended that the only precedent for the "contrived insincerity" marked by the appointment of the inquiry was when "Macbeth so fiercely looked round for the murderers of Duncan."

Mr David Steel, the Liberal leader, protested that the inquiry had been a "nine-day charade" and caustically told the Prime Minister that, had she been living in the real world, her action in insituting it would have led to her being charged with "wasting police time."

The angry protests on the Opposition benches were momentarily stilled when Mr Alex Fletcher (C), Edinburgh Central), the former Corporate and Consumer Affairs Minister, heavily underlined the fact that the main consideration in the minds of many Tory backbenchers was the integrity of the Government.

He asked the Prime Minister: "Are you satisfied that the statement you have made has enhanced the integrity of your Government?"

The Prime Minister replied that she had set up the inquiry and departed from the practice normally followed on such occasions by making a full report to the House at the first opportunity.

In response to a series of probing questions, Mrs Thatcher explained that, because the Solicitor General's letter had been intended to correct "material inaccuracies" contained in a letter written by *Mr Heseltine to the bank* advising the European consortium seeking to acquire a stake in Westland "commercially sensitive" factors had governed the timing of the arrangements made to bring it to the attention of the public.

Her insistence that she had not been aware at the time of the arrangements for implementing the "leak" decision, authorised by Mr Brittan and carried out after officials of the Department of Trade and Industry had consulted members of her Downing Street staff, was greeted with derisive laughter and shouts of disbelief by many of the Opposition benches.

Dr David Owen, leader of the Social Democrats, demanded to know when the Prime Minister's Office first informed her that it had given "cover" to Mr Brittan's decision to authorise the leak.

He maintained that the Prime Minister should have informed the House of this fact at the first opportunity instead of instituting an inquiry in the knowledge "that her office and, by implication, she herself, was fully involved in this whole *sordid affair.*"

The Prime Minister answered that "an enormous number of facts" had not been known until she received the report of the inquiry on Wednesday.

Pressed by **Mr Michael Foot**, the former Labour leader, who claimed that Mrs Thatcher must have known all the facts at the time she ordered the inquiry, she declared: "You are not correct. I did not know all the facts. That was why the inquiry was set up."

Mr Merlyn Rees (Lab, Morley and South Leeds) added to the discomfiture of the Prime Minister and Mr Brittan by commenting: "All I know is that if I, as Home Secretary, had set up an inquiry and it came back and said 'you authorised it,' I would have resigned."

Mrs Thatcher repeated that she had not been consulted about the arrangements for bringing the Solicitor General's letter into the public domain and, amid protests from the Labour benches, urged Mr Rees to "have the decency to accept that statement."

She admitted: "I wish the manner of the disclosure had been different and more orthodox."

The Prime Minister said one alternative to the leak would have been a "straight statement" but things were not easy at the time. "Also the people concerned—I say again I was not consulted—were up against very severe time constraints."

In a rare moment of contrition, Mrs Thatcher admitted in response to a question by **Mr Jerry Wiggin** (C, Weston super Mare) to "deep reget" that the Solicitor General's letter had been leaked without his approval.

Mr Heseltine suggested that sufficient time had been available to enable the difficulties said to have arisen over the letter he had written to the bank advising the consortium "for colleagues to have considered, discussed or perhaps even agreed any withdrawal of anything in my letter which was misleading."

He also asked the Prime Minister to confirm that "every word of the letter I sent to the European consortium stands uncorrected by any statement of *this Government.*"

Mrs Thatcher countered that the problem would never have arisen had Mr Heseltine cleared his letter with the Solicitor General. She said: "You did not do so, even though you knew full well that I had cleared every word of mine (in a letter to Sir John Cuckney, the Westland chairman) because it was thought it might be included in the prospectus or be material."

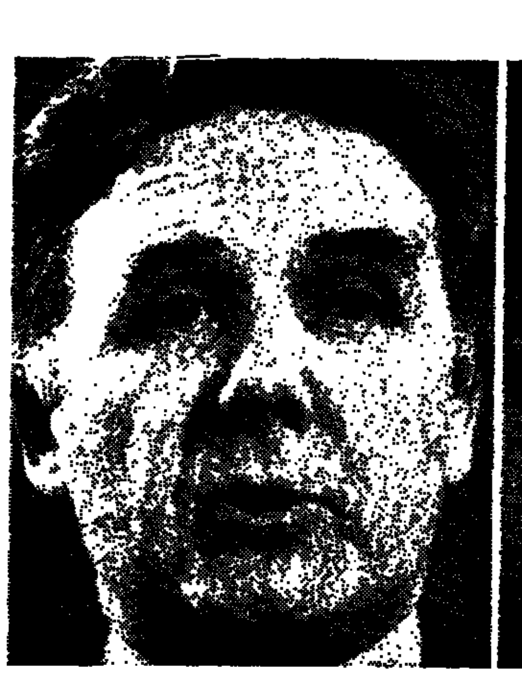
Mr Patrick Cormack, MP for Staffordshire South, who has led the demands from the Tory backbenches for Mr Brittan's resignation, asked if the ashen-faced Trade and Industry Secretary had known that he had authorised the "leak" when he addressed the House last week.

Mrs Thatcher sidstepped this question, but told another inquisitor that she believed that Mr Brittan had had a duty to see that the facts in the letter written by the Solicitor General to Mr Heseltine were made public at the relevant time.

● In the Lords, Viscount Whitelaw, the deputy Prime Minister, said he felt "deeply and bitterly" about the way he had been treattd in Cabinet by Mr Heseltine over the Westland affair.

"I don't see, in what the then Secretary of State for Defence did, anything that made joint Cabinet responsibility at all possible.

"It is only *fair* to say that I feel deeply and bitterly at the way I personally as a Cabinet minister was treated over that period of time, and so do my colleagues and we are entitled to say it."



Mr Alex Fletcher: Has statement enhanced integrity of Government? Mr Neil Kinnock Government rotten from the core

The 'normal' limits of leaking are breached

Peter Riddell explains why the leak of the Mayhew letter matters

"I BRIEF, you leak" has always been the Whitehall quip as departments jockey for position on behalf of their ministers.

Yet there is something out of the ordinary about the row over the letter from Sir Patrick Mayhew, the Solicitor General, to Mr Michael Heseltine, the former Defence Secretary, which was selectively "leaked" or "disclosed" to the Press Association by Miss Colette Bowe, the head of information at the Department of Trade and Industry

It is normal practice for *information officers in White*hall to brief on their department's viewpoint. This is often on an unattributable basis — that is, the information is given on condition that the source is not identified specifically.

Technically, the disclosure of background information on departmental attitudes can be seen as a breach of the Official Secrets Act. However, the procedure is that information officers and other civil servants are regarded as being authorised by their ministers to release information. Ministers are regarded as self-authorising.

Indeed, it is an open secret that officials of both the Ministry of Defence and the DTI have been briefing heavily throughout the Westland affair, countering each other's claims on behalf of their ministers.

This may have been against the spirit of the Cabinet's agreement not to make public statements or to take sides, but it was unusual only in degree, not in kind, from normal practice.

The affair of the Mayhew letter is different. The background is that on January 3, the day following the sending of a letter from the Prime Minister to Sir John Cuckney, the Westland chairman, Mr Heseltine sent his own "amplification" to the rival European consortium.

After discussions that weekend with the DTI, Sir Patrick wrote on Monday, January 6 to Mr Heseltine. He said there were "material inaccuracies" in some aspects of the letter referring to the attitude of European governments. He said there should be amendments, since the Government was under a duty not to give incomplete or inaccurate information.

Within two hours of its dispatch, extracts from the letter were made publicly available.

Mrs Thatcher made it clear yesterday, without referring to Miss Bowe by name, that she had received general political authorisation to act, and therefore she was not legally liable.

There are major political questions, raised yesterday about whether it was right for a minister to authorise the selective disclosure of a letter by another minister.

First, the law officers do have a special status within the Government, distinct from that of other ministers. Normally their legal advice is kept confidential.

Second, even if the Westland shareholders needed to be told of Sir Patrick's view, as Mrs Thatcher insisted yesterday would not the proper method have been for him, rather than someone else, to release the letter? She also revealed that he did not know beforehand.

Third, should the letter have been disclosed in its entirety rather than selectively in a way clearly intended to damage Mr Heseltine? Most of the other equally sensitive correspondence in the affair has been disclosed in full.

On all these points, the disclosure of the Mayhew letter was against usual practice, even in an affair during which there had been such open briefing as the Westland saga.

This explanation is why Sir Patrick has apparently been so angry at being set up by his colleagues, and also why the leak has been treated as so significant.

Kinnock leads assault on Dunsinane

LABOUR LEADER Neil Kinnock cast aside Welsh rhetoric and drew a Shakespearian analogy when Mrs Thatcher had finished her extraordinary statement to the House of Commons

Appropriately enough, he took his text from Macbeth, that dark work which is reputed to bring bad luck on those who stage it.

The Opposition parties and some Tory MPs listened with scornful incredulity to the Prime Minister's account of how No *10* and the *Department* of Trade and Industry had authorised the leak of the Solicitor General's letter on Westland without her knowledge.

PARLIAMENTARY SKETCH

From the way the House greeted this latest bizarre episode, it was evident that the Westland drama, which has had strong elements of farce, was taking a grim turn towards Shakespearian tragedy.

The words subterfuge, shabby and sordid flew through an atmosphere thick with intrigue and suspicion.

Mr Kinnock encapsulated the feelings of many when he asked why it was necessary to hold an inquiry when everyone in the drama seemed to know of the decision to leak the letter.

The only comparable precedent, he believed, was the way in which Macbeth murdered Duncan and then ordered a spurious search for the assassins in order to deflect suspicion from himself. Presumably with Lady Macbeth in mind, Mr Kinnock insisted that the stain of guilt would remain with the Prime Minister for the rest of her career.

Facing damaging questions from the Opposition and from several Tories, Mrs Thatcher underwent the most harrowing 50-minute ordeal of her premiership.

We had been led to believe that *she would put up a robust* performance and come out "with guns blazing." Far from it. For much of the time, the Iron Lady was forced on to the defensive and seemed hesitant and unsure of herself.

Her defence against her accusers could be summed up in the words of Macbeth: "Thou canst not say I did it; never shake thy gory locks at me."

Throughout these exchanges, Trade and Industry Secretary Leon Brittan, whose blood may be spilled before the final curtain, sat gloomily beside the Prime Minister.

Even more wretched was Solicitor General Sir Patrick Mayhew. This well-liked and respected figure sunk his head and at times looked close to tears at the latest revelations in what Labour MPs are calling the "Brittangate" affair.

Some of the most pointed and damaging questions came from the Tory benches. Jerry Wiggin asked whether Sir Patrick had given his approval for the selective leaking of the letter.

"No sir, and I deeply regret *that,*" *replied* a *contrite* Mrs Thatcher.

As in all Shakespearian dramas, faithful spear carriers came on to speak their lines dutifully before disappearing into the wings.

Tory backbenchers were cast in these roles — stretching credulity to the limit by arguing that it was all a fuss about nothing. Why, those awful Labour Governments were always up to such tricks.

Casting himself in the role of a modern Justice Shallow, that bucolic Tory, John Stokes asserted that the good folk of his peaceful con*stituency in the Midlands* cared nothing for these high-flown matters.

The sombrely attired Nicholas Fairbairn, Laird of Fordell Castle in Perthshire, emerged from the gloom of the Tory backbenches to assure us that the Opposition was only raising bogus points which purported to be matters of principle.

The groundlings cried for silence as former Defence Secretary Michael Heseltine, self-appointed hero of the drama, rose to demand justice and call for the publication of his reply to the Solicitor General.

This request was brushed aside by Mrs Thatcher. She felt that, if he had behaved himself and refrained from sending a letter in support of the European consortium, the whole mess would have been avoided.

Meanwhile, as the beleaguered Government braces itself to get through the emergency debate on Monday, Mrs Thatcher should not give up hope. As Malcolm said in Macbeth: "Come what come may, time and the hour run through the roughest day."

John Hunt

PM announces plan for visit to Israel

THE PRIME MINISTER is hoping to visit Israel this year, she announced in the Commons yesterday at Question Time.

The visit, expected in the next six months, follows her talks yesterday with Mr Shimon Peres, the Israeli Prime Minister.

Mrs Thatcher said the talks with Mr Peres "were not only enjoyable, they were very interesting and constructive and I hope to visit Israel later this year."

Mr Andrew Faulds (Lab, Warley East) asked if she had "impressed upon Mr Peres the need for Israel to accept the validity of the Palestine Liberation Organisation in any negotiations towards a peace treaty in the Middle East."

He said Mr Peres should realise that "if he does not use the moderate influence of Chairman Arafat, he or his successor is going to have to face a less moderate and more radical leadership of the Palestinians."

Mrs Thatcher replied that that would depend on the Palestinians "renouncing violence and accepting the right to exist."

Thatcher refuses to be drawn on exchange rate

BY KEVIN BROWN

MRS MARGARET THATCHER, the Prime Minister, refused to say in the Commons yesterday whether the Government had decided to allow sterling to take the strain of weakness in the oil market.

Mrs Thatcher was asked by Mr Neil Kinnock, Leader of the Opposition, "whether you are currently maintaining the Government's policy of allowing the pound to find its own level."

Mrs Thatcher told him: "I have no change to announce in interest rates, if that is what you mean."

Mr Kinnock pressed the Prime Minister to spell out how long a rise in interest rates could be avoided.

She would only say, however: "The interest rate is one of the factors one looks at in continuing the policy of having a top priority of reducing inflation."

Mr Doug Hoyle (Lab, Warrington North) said a rise in interest rates would give the UK the highest rates of any developed industrial country, except Italy.

"It will mean that mortgages will rise and that will have a devastating effect upon those on the lowest incomes," he said.

Mrs Thatcher replied: "Interest rate increases are unwelcome. The Government pledged itself to take every action as necessary to keep inflation down. The markets have been unsettled this week, as the oil prices have fallen, but the Bank of England has maintained its current dealing rates."

Dr David Owen, the SDP leader, claimed Mrs Thatcher had lost control of both the Cabinet and the economy. He said it was widely believed that Mr Nigel Lawson, the Chancellor, was now in favour of making sterling a full member of the European Monetary System.

Dr Owen challenged Mrs Thatcher to "make it clear that, if interest rates rise, as many fear will happen tomorrow, this will be accompanied by a decision to join the EMS."

Mrs Thatcher told him: "Perhaps you will get control of your own small party

Mr David Evennett (C, Erith and Crayford) asked the Prime Minister "to reaffirm her commitment to lower interest rates in the long term, and to lower income tax."

Mrs Thatcher replied: "We would all like lower interest rates, but there are other things, like the level of inflation."

Plea to save Gartcosh turned down

By Kevin Brown

A LABOUR attack on the Government's refusal to step in to prevent the closure of the Gartcosh steelworks in Lanarkshire was defeated by 61 votes in the Commons last night.

MPs voted 258—197 against an Opposition motion calling on the Government to save Gartcosh by extending a three-year guarantee given to the nearby Ravenscraig integrated steelworks.

A government amendment stressing the importance of returning BSC to profitability was approved without a division.

The Government was criticised, however, by a number of Tory backbenchers, including Sir Hector Monro (Dumfries) and Mrs Anna McCurley (Renfrew West and Inverclyde). Both voted against the Government.

Mr Malcolm Rifkind, the Scottish Secretary, said the closure, which threatens the jobs of 700 workers, was a matter for BSC management.

Mr Donald Dewar, the shadow Scottish Secretary, said the Government's refusal to intervene was a contemptible dere*liction of duty*

Ulster voters brave the weather

BY HUGH CARNEGY IN BELFAST

NORTHERN IRELAND voters braved foul weather to go to the polls in 15 of the province's 17 parliamentary constituencies yesterday to deliver their verdict on the Unionist campaign against the Anglo-Irish agreement.

According to usual practice in the province, counting does not start until this morning, with results expected this afternoon.

The by-elections were caused by the resignation of the 15 Unionist MPs, who said the vote would demonstrate the overwhelming rejection by the Unionist majority of the Anglo-Irish accord which gave Dublin a formal role in Northern affairs for the first time.

Unionist hopes of raising *from 420,000 to 500,000* their combined vote in the 15 seats at the 1983 general election were jeojardised by bitterly cold winds, rain and sleet which lashed the province yesterday. But the polls were open until 10 pm, and reports indicated that the Unionists would win a hefty turnout.

The main focus on the nationalist side is on whether Mr Seamus Mallon, deputy leader of the main party in favour of the agreement, the Social Democratic and Labour Party, can unseat Mr Jim Nicholson of the Official Unionist Party in Newry and Armagh.

His chances depend on a big turnout among the nationalist majority in the seat and on whether he can take votes away from Sinn Fein.

The other parties in the contest are the non-sectarian Alliance Party, fighting five seats, and the left-wing Workers Party, fighting nine. In four otherwise uncontested seats, the Unionists have put up dummy candidates

● The Government has announced the appointment of the first Ulsterman to be made a Northern Ireland minister since direct rule was introduced in 1972.

Dr Brian Mawhinny, MP for Peterborough, was born and educated in Belfast.

Business next week in both Houses

COMMONS

Monday: Emergency debate on leaked Westland letter. Airports bill, second reading.

Tuesday: Social Security Bill, second reading. London Regional Transport (Levy) Order.

Wednesday: Liberate debate (subject to be announced). Debate on Commons (Services) Committee report on research assistants.

Thursday: Debate on Army.

Friday: Backbench debate Children and Young Persons (Amendment) Bill, Protection of Military Remains Bill; Tobacco Products (Sales Restriction) Bill.

LORDS

Monday: *Debates on science and* technology, and Europe.

Tuesday: Australia Bill, and Education (Amendment) Bill, third reading. Salmon Bill ad Incest and Related Offences (Scotland) Bill, committee.

Wednesday: Debate on housing. Short debate on energy research.

Thursday: Salmon Bill, committee.

THE PROPERTY MARKET BY MICHAEL CASSELL

Pension funds put more into property

ENCOURAGED by evidence of increasingly buoyant tenant demand and rental growth, UK pension funds piled back ito the property investment sector during the third-quarter of 1985.

Official figures show that, having drastically cut back on property investment transactions in the second-quarter of last year, the funds went on to make their highest quarterly commitment to the direct market since 1981.

Between July and the end of September, the pension funds sank another £238m into the property market, in marked contrast to the historically low £28m total recorded in the previous quarter and well up on the £100m figure for the corresponding period of 1984.

As evidence of an improved market performance has gathered pace, the funds have been competing much more forcefully for small-to-medium sized development opportunities, while actively buying a wide range of standing property investments. Despite the big upturn in third-quarter spending, however, the pension funds committed only £374m to direct property investment during the first nine months of 1985, against £487m in the same period a year earlier.

But while their interest in the property sector was being stepped up, net spending by the insurance companies was falling dramatically. Long-term funds put just £135m into property investment during the third quarter, £220m less than in the previous three months and the lowest total since the start of 1984. Short-term funds recorded a net disinvestment of £16m, against a positive commitment of £20m in the preceding quarter.

Some of the reduction may be attributed to continuing doubts among a number of major institutional investors about the future performance prospects of the property sector, while several unit-linked *funds in particular continue* to reduce the property element of their investment portfolios.

However wild the fluctuations between various investors, the overall pattern of spending *remained fairly stable.* Total institutional spending on property during the third quarter of 1985—including investment trusts, unit trusts and a variety of other small buyers—reached £453m, just £6m lower than in the previous three months.

For the first nine months of 1985, spending totalled £1.27bn against £1.25bn in the same period of 1984. Most estimates suggest that investment for the year as a whole will have reached around £1.7bn against nearly £1.5bn in 1984. A further modest improvement is likely in 1986.

Docks development plan stepped up

FREED from the legislative straightjacket which consigned countless acres of unwanted docklands to continuing dereliction, Associated British Ports is rapidly emerging as an active player in the UK property market.

ABP, a wholly-owned subsidiary of publicly-quoted Associated British Ports Holdings, is now involved in a number of major development projects around the UK's coastline, designed to make use of surplus land assets bequeathed to it after privatisation of the ports industry.

Over the next decade, up to 1,000 acres of unwanted land could be given new commercial uses in a programme aimed at providing a growing source of profits for ABP, set up *under* the Transport Act 1981 to run 19 ports previously controlled by the British Transport Docks Board.

The activities of the old board —which controlled around 7,500 acres of operational and surplus land at the time of its final demise at the end of 1982—were restricted to port-related business. But the 1981 Act granted new freedoms to ABP and it has since wasted little time in diversifying into property development.

Mr Keith Stuart, chairman of ABPH, says: "Previously, the ports' interest in property was forceably confined to leasing out any space surplus to operational requirements. There was a rent-roll but any unwanted land was given to the local authority.

"Now, the chains are off and we aim to make significant profits from property development. In time, they might even equal profits arising from our traditional port business."

ABP has several hundred acres of land either subject to development or development proposals and the plan is to try and retain, wherever possible, a *share of the created investments.* According to Stuart: "We want to avoid a situation in which we are simply selling off our land assets. We do not need or wish to take the money and run. We intend to retain a stake in the future."

To face the challenge, ABP has already beefed up its internal property resources while experience at boardroom level includes experienced property men like Maxwell Creasey, the former MEPC deputy managing director, and Sir Charles Ball, chairman of Peachey.

But the main thrust of ABP's new development strategy centres *on a series of* partnerships and joint ventures with names like Rosehaugh and Trafalgar House. Stuart emphasises: "We are *seeking* to forge alliances with top quality development companies and, so far, we have been very fortunate."

Last year, ABP formed a joint development and investment company with Rosehaugh, one of the property sector's current pace-setters, and together they announced plans for a £50m-plus redevelopment at Southampton, to include Princess Alexandra Dock. There are other major plans for revitalising parts of the Southampton complex and ABP is participating in, or actively examining, development opportunities at several of its other ports, including Cardiff, Hull and Grimsby.

So far, the Southampton plans are the most ambitious and potentially profitable. Stuart says Rosehaugh were chosen as partners because their proposals were the most imaginative and because of the company's proven financial muscle. Rosehaugh Associated Ports Developments, the joint company, has just won planning consent for the first, five-acre phase of the 65-acre Princess Alexandra project.

As the six-year development programme progresses, ABP land will be sold into the jointly-owned company, which will raise outside finance but, at least initially, retain a stake in the completed investment.

Still in Southampton, a second marina is to be built at Town Quay, as part of an office, residential and leisure complex to be built on land leased from ABP by Southampton Marina and Town Quay Development, a local development consortium.

A short distance away, Southampton Free Trade Zone — an ABP partnership which includes Trafalgar House, Kleinwort Benson and McGregor Cory — is planning a £50m manufacturing, "high-tech" and business centre on land adjoining the existing container terminal and which will be sold to it by ABP. Trafalgar House will act as developer and will be involved in the funding.

Beyond Southampton, the challenge of converting derelict land into thriving commercial centres may prove considerably more difficult, bearing in mind the economic climate in some of ABP's other operating centres. There has, however, been considerable success in Cardiff, where Tarmac — with the help of a £10m urban development grant — is developing a £50m housing, office, retail and leisure scheme on land purchased from ABP. The vendors also get a share in the capital appreciation of the new shopping centre, as well as 11 acres of potential development land *which will revert to ABP once* it has been reclaimed.

Stuart accepts that the programme will be considerably harder in some of the northern ports, where surplus land is *plentiful but confidence in the* future, particularly among developers and funders, is less abundant.

"Our main role is to operate the ports, but we hope property can provide us with a useful, second arm. Neither are we just interested in the size of the profits which we can generate from property. Quality of earnings is increasingly important and if we can establish a source of profits which is not subject to the same trade cycle as our main business, that will be a major achievement."

Greycoat in £80m City office plan

GREYCOAT IS paying £30.25m for the freehold of Lutyens House, the 300,000 sq ft office building in Finsbury Circus, City of London. The developer plans a near-£50m refurbishment of the *Grade II listed City* landmark, which was jointly owned by the National Water Council and British Telecom.

Greycoat has emerged as the purchaser folowing a *limited tender* held last year and some lengthy negotiations. The plan is to redevelop the building behind its existing facade to provide around 190,000 sq ft net of office floor space. British Telecom will vacate early in 1987.

The entire project will cost between £70m-£80m and N. M. Rothschild and Allied Irish Investment Bank are to arrange syndicated bank funding to meet the total cost. Jones Lang Wootton, Morgan Grenfell Laurie and St Quintin acted for the vendors. Richard Ellis and Bremer Matson Headley advised Greycoat.

● Prudential Assurance has sold another central London office investment. The group has raised over £5m for the *freehold of Alexandra House,* Kingsway, from Great Portland Estates, which intends eventually to redevelop the building.

● Slough Estates has sold its *70,000 sq ft office development,* now underway in central Brussels, to Pensiobel, the Belgian pension fund. The building is already pre-let to the European parliament and will be completed in mid-1987.

● Abbey National Building Society Pension Fund has bought a 20,000 sq ft office development site at Bath Road, Heathrow, from Barclays Bank. Richard *Ellis* and *Elliott* Son & Boyton will let the building, which will have a completed investment value of about £6.5m. Ellis were asking over £2m for the site.

● London & Edinburgh Trust has handed over 42 Rue d'Anjou, Paris, to the Retail Chemists Pension Fund. The building forms part of a package of three adjoining properties purchased in partnership with Balfour Beatty and Capital & Continental—run by UK property expatriates Chris Holloway and *Michael Hawkes* — for £25m. The first building was sold *for £11m and 42 Rue* d'Anjou has been refurbished and sold to the Chemists for £18.75m. A tenant will be expected to pay a new record rent of FFr 3,000 a sq metre, providing a record 6 per cent yield for a speculative office building in central Paris. LET and partners are now refurbishing the third building, on Boulevard Malsherbes.

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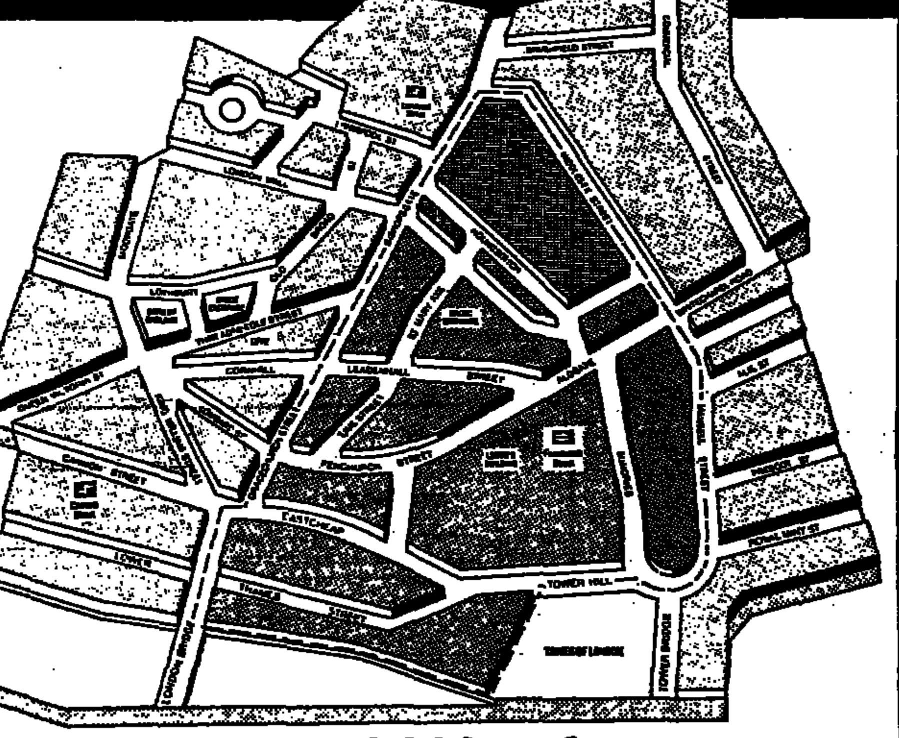

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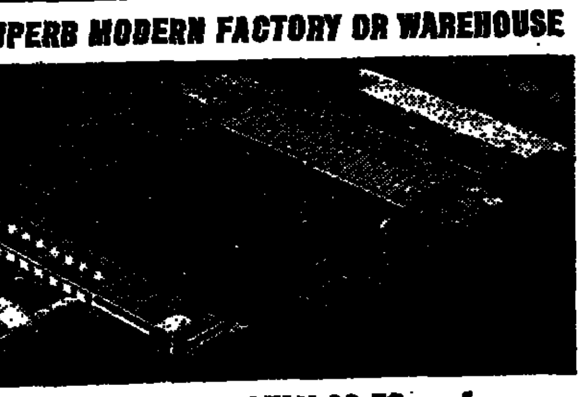

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ADVERTISING ALSO APPEARS
TODAY ON PAGE 6

Arts Week

F	S	Su	M	Tu	W	Th
24	25	26	27	28	29	30

Opera and Ballet

PARIS

La Traviata co-produced with the Teatro Comunale of Florence and New York's Metropolitan Opera conducted by Zubin/Mehta/Rico Saccani in Zeffirelli's production. Violetta is sung by Cecilia Gasdia/Etelka Csavlek, Flora by Eva Saurova, while the role of Alfredo is alternately held by Giacomo Aragall, Neil Rosenhein and Manfred Fink. Paris Opéra (4266 5022).

Spectacle Group "39 bis de Mémoire" in Wilfride Piollet's and Jean Guizerix choreography at the Opéra Comique (4296 0611).

WEST GERMANY

Berlin, Deutsche Oper: This week's highlight is Aida with Anna Tomowa-Sintow,Giorgio Lambert and Ingvar Wixell. Fidelio has Ingrid Bjoner outstanding as Leonore. Die Zauberflöte brings together Lucy Peacock, Cheryl Studer and Bengt Rundgren. (34 381).

Hamburg, Staatsoper: Wozzek has Karen Armstrong, Franz Grundheber and Dieter Weller. Otello, conducted by Guiseppe Patané, stars Julia Varady, Vladimir Atlantow and Piero Cappuccilli. Der Fliegende Holländer has Lisbeth Balslev and Robert Schunk. Also Katja Kabanowa and Der Rosenkavalier with Barbary Bonney, Brigitte Fassbaender and Kurt Moll (35 11 51).

Cologne Opera: The highly acclaimed Salzburg production of Monteverdi's Die Heimkehr des Odysseus, arranged by Hans Werner Henze, with Claudio Nicolai, Marianne Hirsti, Hanna Schwarz and Harald Stamm (20 761).

ITALY

Milan, Teatro Alla Scala: Madame Butterfly conducted by Yoshinori Kikuchi, with Eleonora Jankovic and Gorgio Zancanaro; I Lombardi Alla Prima Crociata, a new production by Gabriele Lavia. Gianandrea Gavazzeni conducts (80 91 26).

Rome, Teatro dell'Opera: Gustav Kuhn conducts Cavalleria Rusticana and a new work by Lorenzo Ferreo (libretto by Giuseppe di Leva), with Nicola Martinucci, Elena Obreztsova, and Giovanni de Angelis. Production, scenery and costumes by Luciano Damiani. (46 17 55).

Turin, Teatro Regio: Luigi Dallapiccola's rarely-given Ulisse, conducted by Milan Horvat and produced by Sylvano Bussotti. (548 000).

The Nederlands Dans Theatre with Sinaphai by Nacho Duato to music by Xenakis and Vangelis, Hans van Manen's Ballet scenes and Jiri Kylian's Lieder eines fahrenden Gesellen (Mahler). Mon in Groningen, Schouwburg (13 10 44). Tue to Thur in Amsterdam, Schouwburg (24 23 11).

LONDON

Royal Opera, Covent Garden: Gounod's Faust, in John Copley's uneven production, returns with a noted French conductor, Michael Plasson, and a strong (though not very Gallic) cast of principals: Stuart Burrows in the title role, Samuel Ramey and Nelly Miricioiu as Mephistopheles and Marguerite. Further performances of the brilliantly colourful and exotic Turandot, with Gwyneth Jones, and of Simon Boccanegra, exceptionally strongly cast with Renato Bruson, Kiri te Kanawa, and Robert Lloyd. (240 1066).

English National Opera, Coliseum: Rossini's Moses, one of his grandest and most impressive works, continues in the repertory, with John Tomlinson in the title role and the veteran Italian Alberto Eredo as conductor. Further performances of The Mastersingers, a good company effort (with a particularly attractive Eva in Kathryn Harries), and last of the interesting new Don Giovanni production by Jonathan Miller, with William Shimell, Richard Van Allan, Josephine Berstow, and Felicity Lott. (836 3161).

SPAIN

Barcelona: Manon, starring Alfredo Kraus with Ana Maria Gonzalez, Enric Serra and John-Paul Bogart, conducted by Jean Perisson. Gran Teatre del Liceu, Sant Pau 1. (318 92 77).

NEW YORK

Metropolitan Opera (Opera House): Monserrat Caballe sings the title role of Tosca with Luciano Pavarotti as Cavaradossi, conducted by Carlo Felice Cillario in a week that includes Romeo et Juliette with Catherine Malfitano and Neil Shicoff in the title roles, conducted by Sylvain Cambreling as well as Neeme Jarvi conducting August Everding's production of Khovanshchina, with Natalia Rom as Emma, Florence Quivar as Maria and Wieslaw Ochman as Prince Golitsyn. Lincoln Center (362 6000).

WASHINGTON

Washington Opera (Terrace): Daughter of the Regiment conducted by Joseph Rescigno with Eric Mills, François Loup and Joyce Castle plays in repertory with Christopher Columbus, conducted by Randolph Mauldin with David Eisler, Elaine Bonazzi and Karen Hunt, in Roman Terleckyj's new production. Both are sung in English. Ends Feb 2. Kennedy Center (422 8700).

Exhibitions

BRUSSELS

Women in Pharaonic Times: 96 objects from the Cairo Museum including jewellery, make-up and perfume cases, religious objects and musical instruments reflecting the status of women in Court and Temple roles. Musée d'Art et Histoire. Ends Feb 28.

ITALY

Milan: Palazzo Reale and Palazzo Bagatti Valsecchi: Edvard Munch (1863-1944): A large retrospective show by the Norwegian forerunner of the expressionists. An extraordinary conveyor of pain and anguish. Most of the paintings are from the Munch Museum in Oslo. Until March 12.

Rome: Palazzo Venezia: "English Caricature, from Hogarth to Cruikshank". 114 engravings from the Sprovieri collection bearing witness to the extraordinary freedom of speech enjoyed in England in these years (1740-1840). Nobody is spared: the Royal Family, the Government, the Church, the army or the aristocracy. The exhibition is sponsored by the British Council. Until Jan. 30.

PARIS

Galle: The first retrospective in France in honour of one of the most important artists of Art Nouveau who successfully explored the sinuous line in ceramics, glass and cabinet making. Musée du Luxembourg, closed Mon, Thur late opening. Ends Feb 2 (4234 2595).

Homage to Paul Delvaux. Distant and solitary in their cool perfection, their large eyes unseeing, Delvaux's nudes people his dreamlike universe. The one touch of realism comes in the painting of his mother's kitchen, with an old-fashioned coal burning stove, grandfather clock and cured ham hanging from the rafters. Centre Wallonie-Bruxelles, Ends March 31 (4271 2616).

WEST GERMANY

Munich: Haus der Kunst, Prinzregentenstr. 1: Karl Spitzweg (1808–1885): 500 drawings and paintings with 70 cartoons from four artists, among them Daumier, Doré, Gavarni and Grandville. Ends Feb.

Berlin, Bauhaus-Archiv, Kingelhöferstrasse 14: Walter Gropius, "The Architect and Designer." An exhibition of paintings, constructions, designs and furniture by Gropius. Ends Feb 2.

NETHERLANDS

Haarlem, Teylers Museum. A biographical exhibition devoted to Charles Darwin, his theory of evolution, and its reception in 19th-century Holland. Ends Mar 9.

Haarlem, Frans Hals Museum. Le Corbusier's influence on Dutch architects traced in photographs, drawings and models of buildings reflecting his ideas on the relationship between man and his environment. Ends Feb 16.

SPAIN

Madrid, Repetitive Structures. 22 works by 21 artists on loan from Ludwig Museum in Cologne, among them, Andre, Judd, Lewitt and Morris engaged in the Minimal movement and Andy Warhol, Lichtenstein und Dine in the Pop Art. Interesting mix of styles and trends. Fundacion Juan March, Castello 77. Ends Feb 16.

Barcelona Thesaurus. L'Art dels Bisbats de Catalunya sponsored by the Fundacio de la Caixa and collaboration of Tarragona's Episcopate. 170 works carefully chosen and of great value. All pieces have been cleaned, restored and thoroughly catalogued. Palau Macai, Paseo de San Juan, Barcelona. Ends March 2.

VIENNA

Kandinsky In Paris 1934-1944: An extensive collection of oil paintings, gouaches, watercolours and photographs from the last 10 years of Kandinsky's life, organised by the Guggenheim Museum, New York. It shows the culmination of his development as pioneer of abstract art, his earlier dramatic exuberance giving way to a more refined style with softer pastels and monochrome colours, but the dynamism remains. In sections on Black Backgrounds and Concrete Art Kandinsky's works are brilliantly complemented by those of Klee, Mondrian, Arp, Miro and Picasso, showing his influence on a generation of European abstract artists. 20th Century Museum. Ends Jan 26.

NEW YORK

Metropolitan Museum: Liechtenstein, the Princely Collection, one of the greatest private collections in Europe, shows a variety of the holdings, like a French Rococo carriage, firearms, sculpture and a hundred paintings, including 19 Rubens, 5 Van Dycks, and 8 Franceschinis. Ends May 1.

WASHINGTON

National Gallery: The Treasure Houses of Britain collects 700 objects from 200 stately homes in a show mounted and decorated to look like the quintessential stately home, with paintings by Holbein, Rubens, Van Dyck, Hogarth and Turner among many others, as well as Chippendale furniture, Meissen and Sèvres porcelain and tapestry, jewellery and armour. Ends Mar 9.

National Museum of American Art: 73 works of New Zealand Maori artists show the mixture of religious, symbolic and artistic traditions in feather capes, ceramic vessels, carved and painted gourds and woven hangings using native materials. Ends March 9. Renwick Gallery.

Music

LONDON

Academy of Ancient Music, with Emma Kirkby, soprano. Vivaldi and Händel. Queen Elizabeth Hall (Mon). (928 3191).

Louis Demetrius Alvanis, piano: Bach, Beethoven and Chopin. Queen Elizabeth Hall (Tue).

London Philharmonic Orchestra, conducted by Serge Baudo, with Ida Händel, violin. Berlioz, Sibelius and Brahms. Royal Festival Hall (Tue). (928 3191).

BBC Symphony Orchestra, conducted by David Atherton, with Paul Crossley, piano. Messiaen, Takemitsu and Bartók. Royal Festival Hall (Wed).

Philharmonia Orchestra, conducted by John Carewe, with Elizabeth Treanor, violin. Brahms and Mahler. Barbican Hall (Wed). (638 8891).

London Symphony Orchestra, conducted by Richard Williams, with Jorge Bolet, piano. Rossini, Barber, Liszt and Dvořák. Barbican Hall (Thur).

Ronnie Scott's, Frith Street: Singer Nina Simone and her musicians. (439 0747).

PARIS

Orchéstre Colonne, conducted by Pierre Dervaux, with Abdel Rahman, El Bacha: Stravinsky, El Khoury, Ravel, Bartók (Mon). Salle Pleyel (4561 0630).

José Van Dam, bass; Anne Pareuil, mezzosoprano; Anne-Marie Fontaine, piano: Gluck, Tchaikovsky, Mozart, Mussorgsky (Mon 6.30pm) TMP-Châtelet (4233 4444).

Vlado Perlemuter, piano: Bach, Beethoven, Ravel (Mon). Théâtre des Champs Elysées (4723 4777).

Amadeus Quartet: Mozart. (Tue). Théâtre des Champs Elysées (4723 4777).

Orchéstre de Paris, conducted by Eugen Jochum: Haydn (Wed, Thur). Salle Pleyel (4561 0630).

Orchéstre National de France, conducted by Vaclav Neumann, with the Radio France choir. Mahler (Thur). Théâtre des Champs Elysées (4723 4777).

ITALY

Rome: Auditorium in via Della Conciliazione: Soprano Rosalind Plowright. Webern, Strauss and Bruckner, conducted by Gustav Kuhn (Mon and Tue). (654 1044).

Rome: Teatro Olimpico: Piazza Gentile da Fabriano): Antonio Meneses, cello; Franz Massinger, piano. Beethoven, Strauss and Chopin (Wed). (393 304).

Rome: Oratorio del Gonfalone (Vicolo Della Scimia 1/B – Via Giulia): Wiener Instrumentalsolisten Chamber Orchestra. Boccherini, Haydn and Mozart (Thur) (655 952).

Rome: Teatro Ghione (via Delle Fornaci 37) Shura Cherkassky, piano. Schumann, Liszt, Grieg, Bernstein and Tchaikovsky (Thur). (637 2294).

Milan: Teatro alla Scala: Michele Campanella, piano: Cesar Franck, Liszt and Mussorgsky (Mon). (80 91 26).

Florence: Teatro Comunale: mezzosoprano Teresa Berganza accompanied by Juan Antonio Alvarez Parejo. Vivaldi, Brahms, Granados and Braga (Tue). (277 9236).

NETHERLANDS

Quadro Hotteterre, with David James and Michael Chance, countertenors. Purcell, Blow. Mon, Amsterdam, Concertgebouw (71 8345): Tue Nijmegen, Vereeniging (22 11 00): Wed, Utrecht, Vredenburg (31 45 44).

Amsterdam, Concertgebouw. Thomas Sanderling conducting the Netherlands Philharmonic, with Thomas Zehetmaier, violin. Wagner, Mozart, Tchaikovsky (Tue): The Radio Philharmonic under Ronald Zollman, with Teresa Cahill, soprano. Krusse, Benjamin, Maxwell Davis (Thur). Recital Hall: Isabelle van Keulen, violin; Jochem Geene, piano (Tue): Trio di Milano. Haydn, Rihm, Brahms (Wed); Henry Raudales, violin; Kyoko Hashimoto, piano. Leclair, Beethoven, Brahms, Wieniawski (Thur). (71 8345).

Utrecht, Vredenburg. Thomas Sanderling conducting the Netherlands Philharmonic, with Thomas Zehetmaier, violin. Wagner, Mozart, Tchaikovsky (Wed). Recital Hall: Concord Quartet. Mozart, Henze, Beethoven (Tue). (31 45 44).

Rotterdam, De Doelen. Recital Hall: Emmy Verhey, violin, and Youri Egorov, piano. Schubert (Wed); Isabelle van Keulen, violin; Mathias Weber, piano. Beethoven, Janaček, Brahms (Thur). (14 29 11).

SPAIN

Madrid, Midday concert (Mon). San Telmo Foundation Trio. Beethoven and Schumann; French Baroque Cycle: concert by José Miguel Moreno. Baroque Lute (Wed). Fundacion March, Castello 77 (435 42 40).

Valencia, 1986 season: St Martin-in-the-Fields. Teatro Principal, Barcas 15, Valencia (351 00 51). (Tue).

NEW YORK

New York Philharmonic (Avery Fisher Hall): Erich Leinsdorf conducting; Walter Klien, piano. Schoenberg, Stravinsky, Dvořak (Tue); Erich Leinsdorf conducting. Brahms, Martinu, Stravinsky, Berlioz (Thur). Lincoln Center (874 2424).

Carnegie Hall: Richard Strauss's Capriccio, conducted by Jeffrey Tate, with the Orchestra of St. Luke's, staged by John Cox, with Ileana Lear, Evelyn Lear, Reri Grist, and Jerry Hadley (Tue); Philharmonia Hungarica conducted by André Bernard. Haydn, Schubert, Bartók (Thur). (247 7459).

WASHINGTON

National Symphony (Concert Hall): Klaus Tennstedt conducting. Wagner, Beethoven (Tue); Yoel Levi, conducting. Barber, Schoenberg, Saint-Saens (Thur). Kennedy Center (254 3776).

CHICAGO

Chicago Symphony (Orchestra Hall): Sir Georg Solti conducting. Weber, Rochberg, Schumann (Thur). (435 8122).

Theatre

NEW YORK

As Is (Lyceum): The first play about AIDS makes gestures toward the whole community the disease affects and focuses effectively on the victim and his protective lover; but this Circle Rep production also has distracting artistic touches to patch over the play's lack of development once the disease is diagnosed. (239 6200).

Cats (Winter Garden): Still a sellout, Trevor Nunn's production of T. S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6262).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like Shuffle Off To Buffalo with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

Brighton Beach Memoirs (46th St): The first instalment of Neil Simon's mix of memories and jokes focuses on a Depression-era Jewish household where young Eugene falls awkwardly in love with his cousin. (221 1211).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2626).

I'm Not Rappaport (Booth): In moving to Broadway, Herb Gardner's touching, funny and invigorating play about two oldsters retains its stars, Judd Hirsch and Cleavon Little, who almost conquer the world when they think they are just bickering with each other. (239 6200).

Big River (O'Neill): Roger Miller's music rescues this sedentary version of Huck Finn's adventures down the Mississippi, which walked off with many 1985 Tony awards almost by default. (246 0220).

WASHINGTON

In Regard of Flight (Kreeger): Bill Irwin's theatrical spoof shows off the mime's talent in confronting a man-eating stage curtain and a disappearing shoe on the quest of a new theatrical genre. Ends Jan 12. Arena Stage (488 3300).

Restoration (Arena): Edward Bond's combination of contemporary politics and 18th-century high jinx with music by Nick Bicat is directed by Sharon Ott of the Berkeley Rep. (488 3300).

LONDON

The Scarlet Pimpernel (Her Majesty's): Donald Sinden in resplendent plummy-voiced form as Baroness Orczy's one-man resistance movement to the French Revolution. Opera director Nicholas Hytner's efficient and sparkish production has smoke, tumbrils, rat stew and rolling heads. (930 4025).

As You Like It (Barbican): Much improved since last year's Stratford-upon-Avon season, Adrian Noble's loosely Edwardian production now emerges as a secret-garden adventure where Rosalind (Juliet Stevenson) has the sisterly devotion of Celia (Fiona Shaw) threatened by Orlando (Hilton McRae). A superb Jacques from Alan Rickman. The RSC Barbican repertoire also includes a fine Othello with Ben Kingsley and, in The Pit, Christopher Hampton's absolutely breathtaking, unmissable version of Les Liaisons Dangereuses (628 8795).

The Cherry Orchard (Cottesloe): Wonderful NT production by Mike Alfreds includes the scene Stanislavsky cut. Ian McKellen as Lophakin, Sheila Hancock as Ranevskaya, Hugh Lloyd as Firs, Edward Petherbridge as Gayev, Roy Kinnear as Simeonov-Pischik, Eleanor Bron as Varya. Sheer bliss and very funny. (928 2252).

Noises Off (Savoy): The funniest play for years in London, now with an improved third act. Michael Blakemore's brilliant direction of backstage shenanigans on tour with a third-rate farce is a key factor. (836 8888).

Starlight Express (Apollo Victoria): Andrew Lloyd Webber's rollerskating folly has 10 minutes of Spielberg movie magic, an exciting first half and a dwindling reliance on indiscriminate rushing around. Disneyland, Star Wars and Cats are all influences. Pastiche score nods towards rock, country and hot gospel. No child is known to have asked for his money back. (834 6184).

42nd Street (Drury Lane): No British equivalent has been found for New York's Jerry Orbach, but David Merrick's tap-dancing extravaganza has been rapturously received. (836 8108).

Me and My Girl (Adelphi): Sleek, efficient and enjoyable revival of Britain's biggest war-time musical hit with Robert Lindsay in the Lupino Lane role emerging as the best new musical star since Michael Crawford. (836 7611).

Barnum (Victoria Palace): Michael Crawford returns to London with his breathtaking performance as the circus impresario, adding one or two new tricks in a likeable meringue of a musical. (834 1317, credit cards 828 4735).

Pravda (Olivier): Entertaining epic new play by David Hare and Howard Brenton for the National Theatre in which an unscrupulous South African magnate acquires Britain's most prestigious newspaper. A Jonsonian satire on the grand scale with an irresistible performance by Anthony Hopkins as the colonial who penetrates the Establishment while a nation dithers. (928 2252).

Guys and Dolls (Prince of Wales): The 1982 National Theatre production has arrived in the West End, if anything improved by the new casting of Lulu as Miss Adelaide and the notably well sung black Sky Masterson of Clarke Peters. Richard Eyre's production and John Gunter's affectionately lavish designs complement this most joyful and literate of musicals, a fitting tribute to the recently deceased co-librettist Abe Burrows (930 8681).

Torch Song Trilogy (Albery): Antony Sher plays Harvey Fierstein's four-hour triptych of the life and loves of a drag queen fighting for emotional and domestic stability. Truthful playing has the effect of cruelly exposing Fierstein's tackily uneven writing. (836 3878).

Continued on Page 13

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THE ARTS

Amelia Shankley plays the young Alice in "Dreamchild" Stallone in "Rocky IV"

Cinema/Nigel Andrews

Punchdrunk and wonderstruck

Rocky IV directed by Sylvester Stallone
Dreamchild directed by Gavin Millar
Before Stonewall directed by Greta Schiller
Teen Wolf directed by Rod Daniel
Death In A French Garden directed by Michel Deville

Sylvester Stallone is fast becoming Hollywood's one-man patriotism industry. Fresh from winning the Second Vietnam War in *Rambo*, he is back in the fourth *Rocky*, turning the plug-ugly pugilist into a front-line Cold Warrior. East meets West in the boxing ring, and the resulting film may be dangerous for your mental health but is oddly irresistible in its juggernaut impact as entertainment.

The opponent this time, standing at six foot six with iceberg teeth and a rampart of bristle-cut blond hair, is Russian heavyweight Ivan Drago (Dolph Lundgren). "Vatever he heets, he dee-stroys." snarls his promoter. And Mr Drago promptly proves it. He goes to Las Vegas to hit and destroy, with one killer punch, Rocky's old antagonist turned best friend, Apollo Creed (Carl Weathers).

The film has hardly begun and already writer-director-star Stallone is stoking our adrenal glands. Aided by a soundtrack of near-nonstop rock music (Gladys Knight, James Brown, etc) and strafing us with images of the stars and stripes (on everything from banners to boxing shorts), he has us clamouring for the East-West revenge fight: the Philadelphia Stallion versus the "Siberian Express." This will take place in Russia, despite the pleas of Rocky's longsuffering wife Talia Shire, still resembling a mouse on tranquillisers, and the protests of fish-lipped brother-in-law Burt Young ("Some holiday this gonna be"). Can Rocky do it? Can that steel jaw, which has already stood up to more punishment than Sacher-Masoch and the Thames Barrier combined, take another one hundred direct and Dolby-amplified blows in one fight?

You betcha.

Whatever patent formula Mr Stallone has found for whipping up audiences' emotions, it is clearly worth purchasing shares in it. *Rocky IV* has already taken 100 million dollars at the box office and is an entertainment machine of terrifying efficiency. The secret is partly the takeaway political tub-thumping, which cunningly modulates from patriotism to detente in the final reel, and partly Stallone's tendency to swap linear narrative for hard-punching montage sequences: those flurries of quick-cut action in which days or years are covered in minutes. One sequence gives us a bouquet of flashbacks over Rocky's past career, another a rock-scored marathon of cross-cuts between Rocky's training sessions at a snowbound Russian *dacha* and Drago's hi-tech gym where diagnostic machines register every muscle twitch.

Ah-ha we cry here. Emersonian self-reliance US-style versus dehumanising Soviet automatism! Which is indeed the message of the whole film. The natural David meets the robotic Goliath, and after the decline of the Western we are perhaps starting a whole new chapter in American movie folklore: How the East was won.

*

Some films begin by tacking madly between the tired and the inspired. *Dreamchild*—a meditation on the real story behind *Alice in Wonderland*, written by Dennis Potter and directed by Gavin Millar, begins with sheer magic. The camera swirls up a shingled studio beach under a stormy skydrop to catch the Gryphon and Mock Turtle in pompous debate on a rocky promontory; while the elderly Alice Hargreaves née Liddell (Coral Browne), formerly Carroll's beloved model for Alice, acts as wonder-struck referee.

Then we cut — and enchantment totters—to Mrs Hargreaves crossing the Atlantic by means of some yellowing stock footage of an ocean liner and disembarking before a rhubarbing throng of New York reporters who seem to have been transplanted into the movie from *The Front Page* or the stories of Damon Runyon.

Mrs H, we learn, is visiting Columbia University for some centenary Carroll celebrations; year 1932. And it is soon clear that far from being in party spirit she is an old fogeyess finding the New World hard to swallow and the old world of half-remembered *amour fou* from Rev Dodgson (*aka* Lewis Carroll) still undigested, though effortlfully repressed, in her psyche.

But gradually the film, like its heroine, emancipates itself. The cardboard Yanks assemble themselves as justified cut-outs in a fairy-tale; a subplot of touching romance begins between Alice's young companion (Nicola Cowper) and an ex-reporter turned self-made agent (Peter Gallagher) who steers Alice into money-winning broadcasts and endorsements; and the Waldorf Astoria Hotel sprouts memories, visions, flashbacks and Mad Hatter's tea parties (creatures splendidly created by muppeteer Jim Henson) as if there were no tomorrow.

And there *is* no fulfilling tomorrow for each of us, suggest Potter and Millar, without a full emotional acceptance of our pasts. This theme is seamlessly embroidered into the story up to and including its exquisitely touching double denouement: Dodgson (Ian Holm) unforgivingly mocked and then forgivingly kissed by the young Alice (Amelia Shankley) at a picnic reading, the older Alice at last acknowledging in public Dodgson's love for her, even as a quasi-demented oratorio version of "The Whiting and the Snail" rings from the university rafters. Superb performances by Holm and Browne adorn a film that is wise, witty, imaginative and—as all movies should be—moving.

In recent years one has sometimes needed a steel umbrella, when one goes out, to avoid being hit on the head by endless documentaries about gay liberation. All in a worthy cause, but they do rain down somewhat. Much of Greta Schiller's *Before Stonewall* seems like a reprise of past docu-surveys like *Word is Out*: even to interviewing several of the same veterans of the gay "movement" to learn how they kept the struggle and the subculture going long before the 1969 Stonewall riots (police raid on New York gay bar met by two days of defiant retaliation) made homosexual rights headline news.

Better yesterday's agiprop, however, than camped-up tributes to yesterday's pulp movies. *Teen Wolf* shows that you too can amaze your girlfriends, break bastketball records and bore audiences to death by becoming a werewolf in a trite comedy-horror film. Michael J. Fox (of *Back to the Future*) is the lycanthrope. Rod Daniel limply directed.

Michel Deville's *Death in a French Garden* is the latest instalment in a larger movie saga, informally known as "Death of the French Cinema." Wielding chic clothes and sub-Bunuel non-sequiturs, a stellar cast (Michel Piccoli, Nicole Garcia, Richard Bohringer) revolve around a black hole of a plot, whose incidents of murder, voyeurism and sex seem to have no discernible connection either with each other or with human behaviour as we know it. Sole scene-stealer in Anémone, who as the possibly crippled, possibly nymphomaniacal possible detective (nothing is certain in this film) gives her lines a yeasty sparkle worthy of a better script.

Il trovatore/Theatre Royal, Glasgow

Rodney Milnes

For its first staging of Verdi's sombre "civil war as symbol of the human condition" masterpiece, Scottish Opera has opted for a joint production with Opera North, Andrei Serban's up-dating to the Spain of the 1930s having been seen in Leeds 18 months ago. Michael Yeargan's permanent set, a bombed-out railway station, is used, but rather less atmospherically lit; the production is by Graham Vick. The outlines are basically the same, thought with rather more gunfire and bloodshed if memory serves, and greater emphasis on infant mortality (which is not inapt given the plot's pre-history). The essential sobriety of the concept, and thus its inescapable impact, remains intact.

But in Glasgow the opera is sung in Tom Hammond's fine English translation, which inevitably draws the audience more closely into the action: there is no question of us being allowed to withdraw into a mere "four greatest singers in the world" wallow (ironically this is an opera which can be much more interesting if the singers are less than palpably "great"). Here the emphasis is on clarity of musical and verbal articulation. Not only is virtually every word audible (special praise to the lusty chorus) but the lines are sung as if they actually mean something. Given Geoffrey Moses's brilliant account of Ferrando's narration, there is no excuse for failing to understand the plot.

That the English text should sound so naturally allied to the music says much for the care and quality of the musical preparation under Graeme Jenkins. Admirable though this may be, care should not, ideally, show in a performance of this particular score; orchestral and vocal phrasing, internal and external balance, overall pacing, all were precisely calculated, yet one occasionally missed from Mr Jenkins the visceral drive, the rhythmic intensity (double dots play a vital role in this music) and the obsessive nature of the writing that can emerge more strongly in less responsibly prepared performances. Some rather self-conscious shading and lapses in forward momentum, as in the second-act *concertato*, were especially worrying. Swings and roundabouts.

The singing was expressive as well as clear. Janice Cairns (Leonora) may not have a conventionally beautiful voice — her tone can harden under pressure and her range of tone colour is limited — but musicianship, technical assurance and heartfelt eloquence of delivery more than make amends. Seldom can the hopelessness of Leonora's predicament have been conveyed so searingly, most notably in a searching account of the fourth-act aria and cabaletta (both verses, bravo), the innumerable technical hurdles of which were cleared with a skill that was never displayed for its own sake but used to intensify the emotion. She is a lovely performer.

Patricia Jayne duly wrung every wither in earshot as Azucena, but with more care for dynamic and phrase than she has sometimes shown in other roles; the part is seldom sung as written, and perhaps never has been, but Miss Payne's approach will do nicely by today's standards. An apology was made in mid-performance for the tenor, Angelo Marenzi (complaint unspecified); he had coped better with the English text with Verdi's vocal lines, and it would plainly be improper to comment in detail on his interpretation. As Luna, Jacek Strauch fielded beautifully warm tone and a secure line (it is always good to hear a young baritone in this role) but little more than conventional villainy of demeanour. A thoughtful *Trovatore*, then, rather than—save for Miss Cairns—a vocally shattering one, and none the worse for that, every now and again.

The Light Rough/Hampstead

Martin Hoyle

At first glance the territory looks familiar from the outposts of plushly concerned liberalism portrayed by Michael Frayn or Doug Lucie. The patio to which the exasperated host flees from his culture-glutted dinner-party is in that new ultra-riparian Hampstead, Clapham. These trendies, however, are older, seedier, more down-market and infinitely more boring than the inhabitants of the customary theatrical NW whatever; and far more turgid than the anguished middle-class fumblers of Alan Ayckbourn who has commissioned work from the author, Brian Thompson.

Alfred Lynch brings weary charm to the almost aggressively inert Paul, the grammar school boy who made it to Cambridge and broods wryly, pathologically incapable of action, over his antiquarian bookshop. Paul knows more than Barry, the bumptious public school socialist, but has made nothing of himself. The last act sees him humiliated by the scion of privilege who is as effortlessly superior on the golf-course as he is confident in cuckoldry.

The trouble is that none of Mr Thompson's characters say anything witty or original as they thrash out their identity problems, insecurities and sexual frustrations. They never remotely engage one's interest or sympathy, though there are hints that Mr Thompson has written the first fogey play with characters 20 years too old (which does not, of course, make them old fogeys).

Part of the blame must go to singularly unconvincing casting. William Hoyland is ludicrously unlikely as the radical golden boy: I expected a dénouement which would reveal him as a travelling sales rep for pork sausages, but no, this superannuated saloon-bar smirker is intended at face value. His girl-friend is connected with the Arts Council, but in what capacity is not made plain. Recent economic cuts may have increased the Council's intake of chirpily tarty vulgarians (it would explain much). And Heather Canning is the most unlikely psycho-therapist to be found outside a TV soap-opera.

Tony Selby's aggressively self-made small businessman injects some life into the proceedings. Oliver Ford Davies provides humour as the otherworldly proprietor of an antique biscuit-tin shop. Michael Attenborough's production should really do something about Mick Hughes's utterly unatmospheric lighting perhaps he, like me, was simply unsure as to what world, social milieu and class background the author was trying to create.

Alastair Muir

Oliver Ford Davies (left) and Alfred Lynch

Les Grands Maîtres français/Festival Hall

Max Loppert

The Royal Philharmonic Society has proposed, in five 1986 Festival Hall concerts, a series of programmes of French music under a rather grand-sounding title, and for which some rather inflated claims are being made. Most of the music being performed is, after all, familiar, everyday fare (only the British premières of works by Messiaen and Jean-Michel Damase provide exceptional novelty). But concerts of French music are always worthwhile, under any title or theme, when given with as much vigour as was Wednesday evening's by the Philharmonia under Alain Lombard. If the rest of the series follows suit, the venture will have proved its value indeed.

Mr Lombard, a leading French conductor of the middle generation perhaps better known here for records than for live performances, had prepared a programe of Berlioz, Ravel, Poulence and Franck; and was able therein to rouse this orchestra's spirits to an unfamiliarly high and heartening pitch. The Berlioz *Roman Carnival* Overture was set off with great verve, the Ravel *Tombeau de Couperin* Suite was sounded with full-blooded attack and some plucky rustic dance rhythms (a notably strong point in the "Forlane"). To both composers the approach was forthright, frank, uncluttered, rather plain; there was little suggestion of subtle shades and fine nuances, of wide dynamic range or special refinements of timbre; memory of Boulez's exquisitely light, floated *Tombeau de Couperin* came particularly to point arrows to the areas untouched in Mr Lombard's.

Yet the encouragement of such brave playing is a virtue not wisely scorned in the current run of routine South Bank concerts. It was shown again after the interval, in an account of Franck's Symphony of singular breadth and muscular articulation—a bit brusque over small details, perhaps, but convinced of the work's merits, and ready to persuade the listener likewise. In between, Poulenc's early Two-Piano Concerto—an irresistible and very curious amalgam of clowning, cocasserie, and Mozartian tenderness—brought to the platform two superlatively bright, elegant, and sympathetic (in all senses) young French pianists in Jean-Philippe Collard and François-René Duchable. From the Philharmonia their support was the nearest thing to orchestral light-fingeredness achived during the evening.

London Mozart Players

Andrew Clements

In focussing their current South Bank series on a wider repertory than last season's exclusive diet of Mozart, the London Mozart Players have constructed some attractively mixed programmes. Wednesday evening's in the Elizabeth Hall was for string orchestra, and offered a trio of more or less neoclassical pieces framed by the statutory Mozart (the D major Divertimento K.136) and Chaikovsky's Serenade.

Conducted by Jane Glover, the playing was generally alert and well integrated. Yet what will pass muster in early Mozart and sound convincing and even imposing in the broader brush strokes of Chaikovsky may still be found wanting in Roussel and Stravinsky. Roussel's pugnacious little sinfonietta of 1934 needs razor-sharp attack and a gutty, almost raw sound; edges were often blunted here, the textures somewhat bland. Conversely Stravinsky's Concerto in D needed more easeful elegance and refinement to polish its immaculate surfaces.

To describe middle-period Vaughan Williams as "neo-classical" would be fighting talk in some quarters, but in this context his Oboe Concerto of 1944, neat of figuration, emotionally detached and a central movement in the style of a Minuet, seemed quite close to the Stravinskian aesthetic. It always seems an unsatisfactory piece, with an air of impersonality and relying too much on the soloist (originally Leon Goossens) to lend memorability to the *Lark Ascending*-like cadenzas. Here it was played by Malcolm Messiter, appropriately suave and technically adroit, but a little too monochrome to make the phrasing come alive. That, however, may be an impossible task.

Steer retrospective

A retrospective exhibition of the paintings and watercolours of Philip Wilson Steer (1860-1942) has opened at the Fitzwilliam Museum, Cambridge.

Stephen Bishop-Kovacevich

Dominic Gill

The Barbican's season of Wednesday lunchtime concerts (two or three Wednesdays a month) is a fairly heterogeneous list covering a range of events from orchestral concerts to string quartests to recitals by solo piano, harp or flute. From time to time it offers a platform to new and unfamiliar names (the season's opening concert given by the RPO was conducted by the young prize-winner Sian Edwards): but by and large the emphasis is on the more familiar mainstream —two appearances in particular which shouldn't be missed in February and March are those of the Borodin String Quartet (taking a break from their Shostakovich cycle on the South Bank) and a piano recital by Peter Donohoe.

This week's lunchtime recital was played by Stephen Bishop-Kovacevich: a Bach Partita for overture, and a main course of Chopin. His Bach (the fourth Partita in D major) was bright and clean, neatly made—an intelligent, fluent performnce, if decidely low-key compared with the grand and foreceful Bach of, for example, Angela Hewitt at the Wigmore last week.

Bishop - Kovacevich gave Chopin's F sharp minor and E flat Nocturnes and a group of three Mazurkas in a spirit of delicate self-consuming—exquisitely cautious, rather beautiful: perhaps just a few more risks would have added a final, original spice. The climax of the Barcarolle, arrived at by way of a wistful dream of summer, was held back with a nicely ambiguous melancholy reserve.

Saleroom

A clockwork toy Mercedes open tourer sold for £7,200 yesterday at Christie's sale of toys, games, trains and Dinky toys. The car, dated 1907 and complete with chauffeur, was 10½ in high and had been expected to sell for between £3,000 and £5,000.

Phillips' sale yesterday of printed books, atlases and maps realised a total of £62,150 with only 2 per cent bought in. A complete 157-volume set of The Sporting Magazine, 1792-1870, sold for £7,500 to Lane Fine Art.

A sale of American pictures and sculpture at Christie's New York on Wednesday realised a total of $339,592 (£235,828) with 18 per cent bought in.

The top lot was an oil painting of St Ives, Cornwall, painted by Edward E. Simmons in 1889, for which a New York dealer paid $55,000. Its estimated value was between $7,000 and $9,000.

Antonio Jacobsen's oil of The Bremerhaven tanker, painted in 1897, was bought for $8,580 by a New Jersey dealer.

An oil painting of the Rio Grande River by Albert Groll fetched $7,920 and Claude Raguet Hirst's "Still Life with Peaches" sold for $7,480 to a New York State dealer. The same price was paid by a private Hawaii buyer for Joseph Henry Sharp's landscape of the Honolulu coast.

Annalena McAfee

NOTICE

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Dated: 24th January 1986

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At its meeting on 7 January 1986 in Limoges, the Board of Directors decided to pay the following interim dividend in respect of 1985:

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1985 was a contrasting year in France, with business in the second half showing a distinct improvement over the first half of the year. Overall—bearing in mind the sharp rise in sales in the last quarter of 1984 —consolidated sales were up by an estimated 30 per cent over the year as a whole, up close to 12 per cent after adjusting for changes in the structure of the group.

Sixth Annual Conference of the Strategic Management Society

Singapore,

October 13 to 16, 1986

The theme of the conference is "Cultures and Competitive Strategies" and a wide range of issues with international dimensions will be discussed. This conference has developed a high reputation among executives, consultants and academics in the field of strategic management. Those interested in presenting a paper and/or attending should contact:

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Continued from Page 12

Gigi (Lyric): Unconvincing stage revival of Lerner and Loewe's film follow-up to *My Fair Lady*, Beryl Reid rising inimitably above the material, Jean-Pierre Aumont and Sian Phillips lending more conventional support. John Dexter directs, Jocelyn Herbert designs. (437 3686).

Interpreters (Queen's): Love among the diplomats, according to Ronald Harwood has a superb role for the matchless Maggie Smith renewing a cross-cultural affair with Edward Fox in the shadow of a summit between The Soviet Union and Britain. Fluent direction by Peter Yates of the West End's best new play of the year. (734 1166).

Lennon (Astoria): A not too critical celebration of the life and music of John Lennon that is enjoyable especially for the musical resourcefulness of the cast and Mark McGann's Lennon look-and-sound-alike. (734 4287).

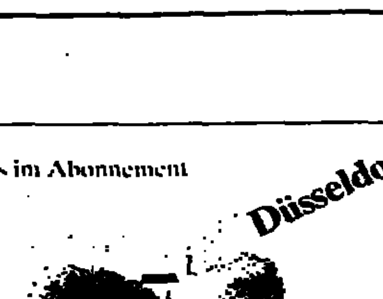
Are You Lonesome Tonight? (Phoenix): More musical hagiography with Alan Bleasdale's Elvis Presley show using flashback and excellent live recreations of the rock and roll hits to explain how Martin Shaw's magnificently wrecked and flabby King in crushed velvet jumpsuit has reached this pretty pass. Exploitative, but not strictly for tourists. (836 2294).

Les Misérables (Palace): Notably well sung and spectacularly produced rock opera from the Nickleby and Cats team of Trevor Nunn, designer John Napier and lighting man David Hersey, Colm Wilkinson superb as Jean Valjean. A melodramatic distillation of Hugo, and none the worse for that. The French score is rousingly melodic, with serviceable new lyrics from Herbert Kretzmer. (437 6834)

Camille (Comedy): Pam Gems's rewrite gives Marguerite Gautier a child for whose future security she exchanges her own frail health and love. Don Daniels's studio RSC production does not transfer that well, but Frances Barber is an actress to watch. More coughing on stage than in the stalls, for a change. (930 2578).

Sie erhalten die Financial Times im Abonnement durch Boten zugestellt.

Düsseldorf



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Rodrigo Festival

The Bournemouth Sinfonietta, sponsored by Citicorp/Citibank, will present a festival devoted to the Valencian-born composer Joaquín Rodrigo on the South Bank from March 3 to March 15.

Among the works scheduled is the world première on March 15 of the *Cántico de San Francisco*. Approached by the Franciscan order in 1981 for a composition to honour the 7th centenary of St Francis, Rodrigo completed the work in 1983 but has withheld it from performance until now. The première will be conducted by Raymond Calcraft.

In the same concert Joaquín Achucarro (piano) will be the soloist in the British première of Rodrigo's *Concierto Heroico*. On March 6 no fewer than three guitar concertos will share the programme with Respighi. The *Concierto de Aranjuez* is followed by two British firsts: the *Concierto para una fiesta*, played by its dedicatee Pepe Romero, and the double Concierto madrigal when he will be joined by his brother Angel.

Awards for small music groups

The Arts Council has awarded grants totalling over £22,000 to eleven groups of musicians, the first to be made under a new project scheme in line with the policy of increased support for chamber music.

The recipients include the Gabrieli Consort and Players (£3,500) to prepare performance material and rehearse the music of Monteverdi's contemporaries: Metanoia (£2,550) to develop their repertoire and give two performances at the Almeida Theatre; and Classical Winds (£2,200) to extend their repertoire

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Friday January 24 1986

It cannot go on like this

THERE IS no point in understatement any more. Mrs Margaret Thatcher's Government is in the midst of a severe political crisis arising from the Westland affair. It is a crisis of confidence in the Prime Minister's authority and her manner of handling government business. Nothing that she said in the House of Commons yesterday did anything to allay it and indeed since Mr Neil Kinnock, leader of the Labour Party, is seeking an emergency debate the affair is likely to continue for a while yet.

The future of Westland itself was always a relatively small matter and is no longer at the centre of the argument. What has emerged in the last few weks, however, is a picture of a squabbling cabinet and a Prime Minister who declines to take full responsibility. There is still no sign that the personal feuding between ministers is about to stop.

Not one of the principal characters comes out well: neither Mr Michael Heseltine, former Defence Secretary, nor Mr Leon Brittan, Trade and Industry Secretary, and least of all Mrs Thatcher. Mr Heseltine carried his campaign for the European solution to the Westland problem beyond the bounds of the tolerable. A more decisive Prime Minister would have dismissed him, or at least ensured that he shut up, before he resigned. Mr Brittan has made mistakes of judgment, particularly in dealing with the House of Commons. Even where his judgement has been correct, he has allowed himself to be over-ruled. For example, it was he who said Mrs Thatcher should make the statement a week last Monday and that the leaked letter from the Solicitor-General should come from No 10 Downing Street. not from the Department of Industry. He is now in a distinctly uncomfortable position.

Own version

Mrs Thatcher would never had to have made the statement yesterday if she had realised the implications of the affair from the start. As it was, she dodged questions. Where was she, for instance, on January 6 when the leak was authorised? When was she first told about the manner in which it was done? The questions may not be of the greatest importance now that the damage is done, but it does not look good so studiously to avoid an answer.

Above all, the Prime Minister gave the impression yesterday of seeking to defend herself rather than stand up for her colleagues. The way the leak was done was wrong, she said, but she had not been told about it. She sounded more frightened of Mr Heseltine than loyal to Mr Brittan. It would be entirely understandable if the latter were now tempted to release more of his own version of the affair. It would not be flattering either to Mr Heseltine or to Mrs Thatcher.

That, however, would be to invite further recriminations in an affair that has already been allowed to go on too long and is dragging down the Government's reputation. The recent uncertainties in the markets may have more to do with the oil price, but it can hardly be denied that political instability has become a factor. A government that now has to put up interest rates—even if it may be right to do so—is going to look tarnished: reacting to its own incompetence.

Personal rivalries

What is astonishing is that the old Tory loyalty in times of trouble has so far failed to assert itself. Some attempts have been made to rally the troops from the back benches, but they have been strangely unreceptive. It is almost as if MPs are simply watching a drama unfold and wondering what will happen next. The opposition is utterly justified in making the most of it, as any opposition would.

Mrs Thatcher and the Government can probably recover. A good meeting of the 1922 Committee of backbenchers might help. So would some indication that the Cabinet is willing to work together. Not least there might be a franker acknowledgement that mistakes have been made, that behaviour has been petty, and that personal rivalries have interfered with the running of the government machine.

But there is not much time left. A government that becomes labelled as incompetent and ridden with internal divisions does not bounce back overnight, as the Labour Party has discovered and also the Conservative administration in the last years of Harold Macmillan's premiership. It is not as bad as that yet, but it ought not to be anything like as bad as it is. Mrs Thatcher cannot go on like this.

Reshaping of the legal profession

THE BLUEPRINT for the future of the English legal profession presented for discussion by the Law Society last week aims at a unified but not uniform legal service. It should consist of a network of general practitioners and of specialists who could be either solicitors or barristers. Solicitors should be allowed to plead in higher courts now reserved for barristers, and barristers should be allowed to have direct contractural relationships with clients without the intermediary of a solicitor. It follows that High Court judges should be selected not only from barristers but also from solicitors.

The legal profession so reshaped would be based on common training of solicitors and barristers. Individual lawyers could leave the determination of their career until after they have gained some experience and shape it in accordance with their talents and with the demand for their services.

Grave mistake

The purely defensive stance adopted by the Bar in response to the solicitors' pressure does not seem very wise. The public respects tradition and cherishes eccentricity, but only within reason. The Bar's pride in the Inns of Court, quaint mores, wigs and even a certain amount of introspective arrogance could well survive, but not the insistence on continuing the monopolistic practices of mediaeval guilds into the 21st century. By mobilising backbench barristers against any change, by opposing in the *Cyril Smith* case the appearance of a solicitor in the High Court even on a purely formal occasion, the Bar brought on itself more than the solicitors dared to hope for: a Court of Appeal declaration that the Bar has no monopoly of the higher courts. The judges are now contemplating whether they should allow solicitors a greater role.

It would be a grave mistake if only the requirements, jealousies and internal pressures of the two branches of the profession were taken into account in any future change. To succeed, the profession must take into account the changing demands for its services. These are at present available only to very large companies or to the impecunious, benefiting from legal aid. The legal profession misses out on the middle strata of entrepreneurs who provide dynamism to the economy. The delays and high costs of patent litigation is only one example of how the present system puts the medium and small entrepreneur and innovator at the mercy of those who can afford the exorbitant costs of litigation.

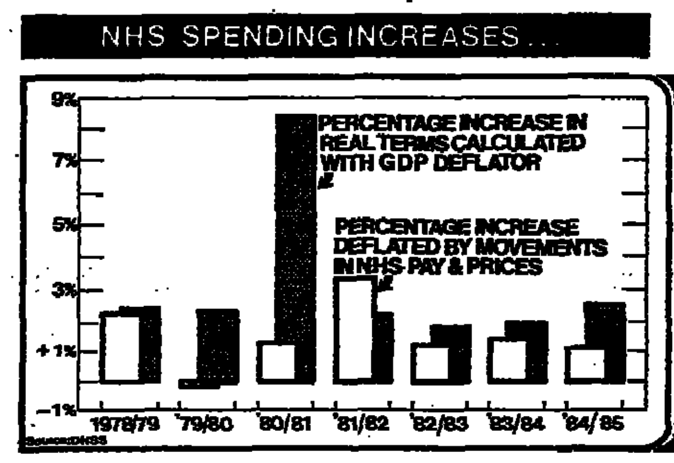
Greater mobility

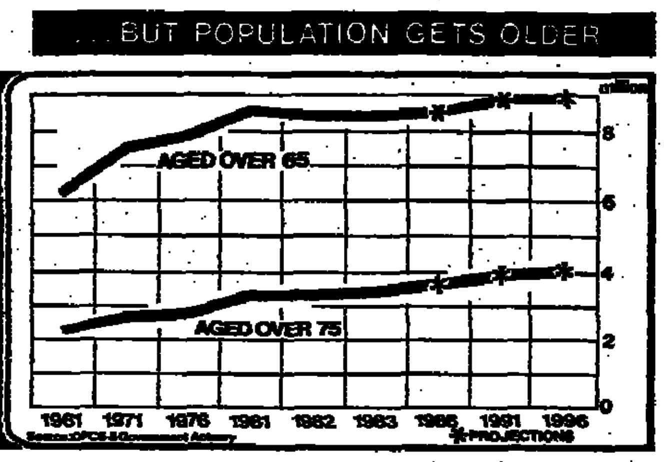
However, the reduction of legal costs, though important, should not be the only aim of change in the legal profession. The removal of the historical and now obsolete division should free the Bar from its dependence on litigation. It should turn the attention away from legal technicalities and towards the need for common sense solutions. It must be repeated that the main task of a lawyer is to prevent disputes, a task which should be made more rewarding than it is at present.

To prepare them for the role of legal advisers to business, the training of lawyers will have to embrace a wider horizon than it does at present. There should be greater mobility between private practice and employment as in-house lawyer. In-house employed solicitors and barristers should have the same access to courts as practitioners and be subject to the same professional discipline. Judges selected from a unified profession embracing practising solicitors and barristers as well as in-house lawyers would be much closer to the reality of disputes brought before them and indulge less in sterile manipulation of formal concepts. The recruitment of academic lawyers as part-time judges could help to put the day-to-day problems of developing areas of law into perspective and to adjust law faster to new demands.

The legal profession is on a side track. It could and should move into the mainstream. The solicitors seem to have grasped this, it is now on the Bar to follow.

Britain's Health Service





Why more money seems less

By Robin Pauley

SINCE the last general election, the Government seems to have gone more than half way to keeping the Labour Party's manifesto promise on the emotive subject of National Health Service spending.

Between the financial year which ended in April 1983 and today, total NHS expenditure has risen from £12.49bn to £14.15bn, a rise of 13.3 per cent, while general inflation as measured by the GDP deflator has risen by 10 per cent. In its manifesto the Labour Party promised to increase NHS spending by 3 per cent a year in real terms. If this had been fully met, expenditure on the NHS by the end of the current financial year would be only £418m higher than it is going to be—a significant but not earth-shattering amount.

So why is it that the Prime Minister has to work increasingly hard to convince the country that "The health service is safe in our hands," and why is the Government so often accused of pummelling if not mortally wounding the NHS?

The answers require examination of a variety of different statistics within the NHS together with an attempt to set public perceptions and expectations against reality.

Since 1978-79 overall expenditure on the NHS has risen by 20 per cent after allowing for general inflation. This raises the first difficulty because NHS costs are not the same as for the general economy. Although general inflation may be the best guide to the demands the NHS is making on the economy, spending adjusted by NHS movements in pay and prices gives the best picture of resources actually available to the NHS.

This means that around 1 percentage point has to be added to average inflation each year to take account of the rapid increase in the number of old people, plus at least another 0.5 per cent to take account of the high levels of modern medical technology costs in the world market.

These two factors alone take the apparent real increase in spending since 1978-79 down from 20 per cent to just over 8 per cent, or barely 1 per cent a year, and even that may be over-estimating the real gain; costs in the private medical sector are running at three times the average annual rate of inflation, partly due to the very high level of investment required for the most advanced medical technology available.

Mr Nick Bosanquet, senior research fellow at York University's Centre for Health Economics, says the Government persistently underestimates these NHS factors. "Between 1978 and 1982," he says, "the number of people in England over 75 grew by 250,000. At 1982-83 prices they would have used up another £210m of extra spending on the assumtpion that about £840 of extra spending per head is required for this age group. In fact only £135m was available."

The two sectors of the NHS with which most people are most familiar are the family practitioner services through their local GP, dentist, optician and pharmacy, and the hospital services.

There are more GPs, more health centres, more dentists and more pharmacies now than ever before, with the result that waiting time for appointments has generally been reduced even though the ageing population means demand for all of these services is constantly rising.

If people think the NHS is being squeezed in this sector it is not because the service appears to be declining but because, unless they are in the exempt groups like pregnant women and schoolchildren, they have to pay for more of it out of their own pockets.

Charges now contribute about 10 per cent of the £3.4bn cost of the service compared with 7 per cent of the £1.3bn in 1978-79—much of the increase in the costs of the family services is as much to do with sharply higher drug prices as with improved service.

The hospital sector is probably of greatest interest to the public and it is in this most sensitive sector that the Government's record looks most questionable.

"The critical test of a health service is how well it serves the needs of the patient," Mr Norman Fowler, Social Services Secretary, said in his 1985 report on the NHS. He lists a string of improvements: 15 per cent more in-patients, 60 per cent more day cases, 9 per cent more out-patient attendances and 3 per cent more people dealt within accident and emergency centres, and all in fewer beds and shorter hospital stays: "in short, a more productive use of NHS facilities," says Mr Fowler.

This is not quite how it looks if you are on the waiting list for hospital admission. The waiting list was 730,000 in 1979 and is still 680,000 today, although it has come down from almost 800,000 in 1982. A College of Health analysis shows 68 per cent of urgent (as opposed to emergency) cases waiting more than a month and thousands of non-urgent cases waiting more than a year.

Nor does the record look too good if the annual percentage changes in actual input volumes or "real" expenditure are calculated for the hospital and community health sector of the NHS. The rise was 0.9 per cent in 1980-81 over 1979-80 followed by a rise of 2.5 per cent in 1981-82. Since then there has been virtually no increase in revenue spending in real terms. The rises for the two years after 1981-82 were only 0.2 per cent and 0.8 per cent followed by a cut of 0.1 per cent in 1984-85 and then growth of less than 1 per cent again in 1985-86. Therefore spending on hospital services has been much less than on the NHS as a whole and revenue expenditure has certainly been failing to keep up with the higher levels of demand

Put another way, the proportion of NHS spending on general and acute hospital and maternity services has fallen from around 42 per cent during the last Labour administration to about 37 per cent. However, this only continues a trend started by the Labour Party as it also reduced the proportion, which had been 44 per cent in 1970.

There have been two consequences: expenditure on out-patient services has risen by around 10 per cent in real terms over the past five years, while spending on in-patient care has risen by only about 1½ per cent.

The rise between 1978 and 1984 of 1m in the number of in-patients and 3m out-patients implies greater pressure on staff, productivity and efficiency improvements notwithstanding. The total number of NHS staff has risen from 773,000 in 1978 to 816,000 in 1985 but within these figures are falls every year since 1982 (829,000) while the demand for services has grown each year.

The number of nurses, more important in many ways than doctors for patients' day-to-day well-being in hospital, increased from 358,000 in 1979 to 397,000 in 1982, stayed static until 1984 and rose slightly to 401,000 in 1985.

> At a time of rising expectations, Britain is spending proportionately less on its health service than many other major countries

Another cause of pressure, reducing improvements to services, is pay for NHS staff which, as elsewhere in the public sector, has consistently exceeded the Government's very low targets. As NHS budgets are cash limited, pay awards over the target have to be met from existing resources or efficiency improvements.

What happens outside both the hospital and the GP surgery also affects public attitudes. For example, the policy of moving some mentally ill people out of institutions into the community, together with the general policy of having people at home or in the local community rather than in hospital, has important implications for local support services, most of which are the responsibility of the local authority.

So while in-patient beds and services for the mentally ill and mentally handicapped show a fall of about 2.5 to 3 per cent a year on average since 1979, this implies a hefty transfer of responsiblity to the social services and local councils, not all of which have been able to cope. Last week's public spending white paper baldly admits in the health and personal social services section that "The Government is seeking real reductions in overall local authority spending," and the plans show only a 4 per cent increase in council health and personal social services spending in 1986-87 in spite of the new pressures.

While this demonstrates that increases and decreases in NHS expenditure are not all that they seem, there are two important factors which complicate the issue still further.

One is capital expenditure. Announcements of hospital closures are more often seized on by both the local communities affected and opposition politicians than new developments.

In fact, the Government's record on NHS capital projects is substantially better than that of the last Labour administration, which concentrated on staff and services but not on improving and replacing hospital buildings.

The last Labour government cut capital spending by a third; since 1979 capital spending has risen by more than 20 per cent in real terms and is now running at around £800m a year compared with £365m in 1978-79.

However, this does not mean there is not an outcry when either services are reduced or old hospitals are fully or partially closed in other areas. This raises the next issue, which has been partly responsible for keeping the question of hospital services firmly in the public eye.

The Government is attempting to re-allocate resources within the NHS to give more to the poorer regions in northern England at the expense of the areas which have always done best—London and the south east. As the real increase in resources is, at best, very small, this re-allocation means that London and the south east is suffering real cuts while the north and Midlands enjoy a modest though long overdue improvement.

When the Government took office, the four Thames authorities and Oxford were all between 6 and 15 per cent above the level of resources calculated as necessary to secure equal access to health care for people of equal need. The other nine regions were between 4 and more than 10 per cent below the line.

The gap has narrowed, with Oxford having fallen to join the authorities below par, though none of them is more than 5 per cent *below*. The four Thames regions all remain above the line but all are well down on their 1979 proportion of resources with the result that periodic squeals accompanied by very real crises develop from such important centres of excellence as University College Hospital, Guy's and St Bartholomew's. Last week seven London hospitals stopped all non-urgent admissions in response to the cut in beds as part of the cut-backs.

To avoid situations such as UCH closing wards due to lack of cash, or Guy's announcing it may have to restrain its renowned cardiac and renal programmes, Mr Fowler should probably have tried to give the poor areas *relatively* more that the better-off rather than force real cuts on the south. He now seems to have accepted this by announcing a review of the system of resource allocation

In short, the disaggregated figures show that the Government is neither doing as well as it claims nor as badly as its opponents claim; some areas and sectors are improving, others are declining.

But on one count the Government is clearly not doing well and this more than anything might account for the long build-up in the public mind that the NHS is in mortal decline: as the country's wealth, living standards and life expectancy go up, so do expectations. Yet Britain spends a lower proportion of its national wealth on the NHS than many other major countries.

In 1960, Britain and Sweden led the world, spending 3.4 per cent of GDP on public sector health programmes compared with an average 2.5 per cent for the OECD states. By 1981 Britain was spending 5.4 per cent of GDP compared with 8.9 per cent by Sweden. At least seven other states spent a higher proportion than Britain which was below the 5.8 per cent OECD average. The British proportion is now 4 per cent.

But to return to the 1960 position as head of the queue with Sweden, whose proportion is approaching 12 per cent, would require Britain to allocate another 8 per cent of GDP to the NHS—an extra £28bn in 1985-86, which would raise public spending totals by 20 per cent.

Men and Matters

Hall retires from Hawker

It was typical of Hawker Siddeley's low profile style that the announcement of the retirement of Sir Arnold Hall, the group's chairman for 18 years, was made in a six-line statement.

And only three of those lines were devoted to Hall, one of Britain's most distinguished engineers and industrial managers. The other three recorded that Sir Peter Baxendell, former chairman of Shell, would become the new chairman.

Hall first came to prominence as head of the Royal Aircraft Establishment team that investigated the De Havilland Comet disasters in the 1950s. And he has led Hawker Siddeley since 1967 through a period of major growth, in spite of the nationalisation of its large aerospace interests in 1977 and the severe recession of the early 1980s.

Again, in Hawker style, both men were out of the country when the announcement was made yesterday, and thus unable to comment on a milestone in British industry.

Hall, who is 70, might have argued that it is not much of an event because he has gradually been disengaging from Hawker. In 1981, he gave up the managing director's job and in 1984 became non-executive chairman, although there is no evidence that his influence at the group's London headquarters has declined.

Hawker is planning to bring out a new corporate identity scheme later this year, but it remains to be seen if the transition in the boardroom will bring about any significant changes. Baxendell, who is 60, seems very much in tune with the Hall style, an intellectual (his field at the Royal School of Mines was petroleum technology) who became a successful manager. He made his name at Shell on the development of the group's interests in Nigeria, where he worked for much of the 1960s and early 1970s. Like Hall, he has tended to keep a low profile, and operate in a very decentralised way.

Sea change

Who says that the job of a merchant navy captain is ever more mechanical and boring? Capt Gerardo De Rosa, the voluble but canny captain of the elderly cruise liner, Archille Lauro, would not agree.

It was his ship, of course, that was hijacked by Palestinian terrorists last October. For 52 hours, De Rosa was at the centre of a drama that claimed the life of Leon Klinghoffer, an American passenger, but later ended happily for the other passengers and crew.

Now Francesco Palagi, an Italian film producer, is planning to make a film of the story. He has chosen none other than De Rosa to write the draft script. The delighted mariner has already completed the first scenes, starting with the moment when the first officer tapped on his cabin door to announce that there were terrorists on board, and was told not to talk rubbish.

But the path of the author is never easy. Italian magistrates, reading of De Rosa's new activity, have warned that the incident is still sub judice and that, for the moment, he should put down his pen.

Money talks

Pierre Beregovoy, the perennially perky Socialist French Finance Minister, is plainly enjoying while he can the limelight accorded to travellers on the international monetary circuit.

Just back from participating in the Group of Five finance ministers' meeting in London,

"Off the record—I'd say it's a leak"

and a trip to New York to meet hardened US bankers, Beregovoy brushes off questions about parochial French issues such as the opposition's denationalisation plans. He says he has been out of the country so much that he hasn't had much time to read the newspapers.

If, as expected, the Right wins the general election in France next March, Beregovoy could soon be out of a job. Meanwhile, he is making the most of praise heaped on socialist economic policies by New York bankers.

The communist daily L'Humanite—starkly opposed to the socialists since the communists quit the government in 1984—hit out this week at Beregovoy

Reflecting on the "orgies" taking place on the Paris bourse—where share prices have nearly tripled since the Left won power in 1981—the newspaper said the socialist policies were favouring the rich.

All of which leaves Beregovoy unperturbed. "I take criticisms from L'Humanite often as a compliment," he says.

Spartan prospect

Frank Fitzpatrick is clearly the sort of person that things happen to.

Less than 18 months ago when he was BL finance director he was approached and offered a top planning job at Midland Bank. Now it has happened again. "I was sitting here minding my own business . . ." he says. On the line were headhunters wondering whether he might be interested in being the next finance director of the BBC.

Fitzpatrick, who is a long way from being a publicity-seeker and has never appeared on television, admits that after the initial surprise he was intrigued by the possibility. "I regard the BBC as one of the best broadcasting organisations in the world as far as one can tell from this island."

The prospect of being financial supremo in an organisation that will soon be handling sums close to £1bn a year, instead of number two to Midland's group financial director Michael Julien, appealed.

The move from the City to Broadcasting House will probably hurt a bit. Gone are the bonus schemes and most of the perks of the City. "The BBC looks cheese-paring, very tight indeed. Certainly spartan by City standards," says the corporation's new finance director.

Off-takes

Alleged graffiti on Euston station: "In People's China, the workers take the lead."—and written underneath: "In capitalist Britain, they also take the copper, iron, floorboards and fillings from your teeth."

Observer

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EEC HORMONES BAN

Sussex farmer Martin Holden with beef cattle and hormone implant gun

Glyn Genin

Another shot of politics for the beef farmer

By Andrew Gowers in London and Ivo Dawnay in Brussels

CONSUMER POWER is on the march in Europe—and the farmers and chemical manufacturers against whom it appears to be directed are deeply worried.

The cause for their concern is a recent EEC decision to ban the use of artificially-implanted hormones as growth promoters in beef production. The move, which takes effect in most Community countries in 1988 and one year later in Britain, follows five years of intense lobbying by consumer and "Green" groups in continental Europe.

Scientists appointed by the European Commission actually cleared three of the five hormone products involved as safe for use in meat production in 1982, and were on the point of giving a clean bill of health to the other two.

But such evidence was swept aside in the European furore. Consumer groups argued that the public wants food produced without interference from artificial techniques or substances. To spice the issue up, there were horror stories of massive hormone doses being discovered in veal-based baby foods in Italy, and of a large black market in the products in Belgium, Luxembourg and northern France.

The scientists are furious at what they see as a cavalier disregard of their views by politicians.

And although many farmers in Europe were prepared to go along with the ban, those in the UK—the EEC's biggest users of hormone products—are hopping mad. They see the decision as an important defeat for their intensive production techniques at the hands of what they see as an ill-informed consumer lobby.

The move also threatens to make a small but significant dent in chemical companies' lucrative sales to the farming industry. Furthermore, the manufacturers are warning that the decision puts at risk sizable amounts of biotechnological investment in similar products aimed at tampering with animal metabolisms—not to mention the vast sales of pesticides, fertilisers and animal antibiotics which they fear may be next in line for consumer action.

And there may be additional ripple effects in the EEC's trade with other meat-producing countries—principally the US, which exports about $100m worth of beef products to Europe a year, mainly in the form of offal. American farmers are big users of growth-promoting hormones, and there are fears that they may find their exports kept out as a result, raising the possibility of retaliation.

Within the EEC, though, the strongest initial effects of the ban will be felt in Britain and Ireland. British farmers use more hormone implants than any other European farmers because they produce a large quantity of their £1.92bn worth of annual beef output from steers (castrated young bulls).

These animals respond to implantation of hormones by growing up to 10 per cent faster than they would otherwise; young uncastrated bulls, which form the backbone of beef production in West Germany, for example, do not need such growth promoters.

The National Farmers' Union reckons that the decision to ban hormones will cost the British livestock industry about £40m a year in lost efficiency, and add 4p a pound to the price of beef in the shops. In addition, say the farmers, it will interfere with the aim which their marketing surveys tell them ought to be paramount in meat production: providing leaner beef to satisfy the anti-fat lobby.

As to the manufacturers and distributors, such as Eli Lilly's subsidiary Elanco, Hoechst of West Germany and Syntex, the immediate loss is small; the British hormone product market is worth only £5m or £6m a year, and hormone implantation is already banned under national legislation in several Community countries. The chemical companies' worries focus, though, on the implications for other related sectors of their business.

Take Eli Lilly, for example. The company is at present considering whether to undertake an investment costing tens of millions of pounds, involving a growth promoter for dairy cattle, at its Liverpool plant. But its US parent's attitude to UK investment has already been soured by the British Government's decision to restrict the drugs that can be bought under prescription on the National Health Service. The move to ban hormones could well be the last straw.

What has really upset farmers, manufacturers, scientists, British Government ministers and even some consumer organisations is the way the decision was taken—politically, without waiting for the full scientific evidence on the subject.

Mr Michael Jopling, Britain's Farm Minister, is considering a legal challenge to the decision in the European Court on the grounds that it was taken by a majority vote rather than unanimously. Ministerial unanimity under Article 100 of the Treaty of Rome has normally been required in the past on veterinary matters.

More importantly, the companies worry that the overtly "political" approach may eventually be brought to bear on the intensive use of fertilisers, antibiotics and pesticides in agricultural production. Many consumer groups believe there are greater grounds for legitimate concern here than in the case of hormones.

"The EEC has not progressed one step with this decision," says one prominent British consumer lobbyist. "Of the three issues—pesticides residues, antibiotics and hormones—hormones are by far the smallest as a health risk."

One of the most worried companies is the US fertiliser giant International Minerals and Chemicals. It has a substantial share of the world hormones market with Ralgro, distributed in the UK by Crown Chemicals, a small independent company based in Kent. IMC fears that the EEC decision could prompt governments in other meat-producing countries—particularly in the Third World—to question the use of hormones.

"Sure, we can survive without hormones," says an executive with another company. "But we are a science-based company, and if things are going to be banned in Europe on non-factual grounds there's no future for us here."

To understand the EEC decision, it is necessary to go back to 1980, when consignments of veal-based baby food in Italy were found to contain huge quantities of the hormone di-ethyl stilboestrol (DES). There were reports of male babies growing breasts as a result and at one point, consumption of veal in its prime Italian market dropped by 60 per cent.

The upshot was a Community-wide ban on the use of stilbenes (the generic term for the group of hormones including DES).

But as far as the consumer groups were concerned, the damage had already been done. The Bureau of European Consumer Unions (Beuc) launched a campaign for an outright ban on all hormones.

The consumers argued that an outright ban would ensure all farmers were treated equally, that it would be easier to police than selective restrictions and would remove incentives to use veterinary or other devices to find a way round the rules; and that it would curb the further growth of the EEC's record beef surplus.

Whatever the facts, the campaign struck an emotive chord in a number of European countries—particularly West Germany, where the influence of the Greens remains a potent force—and led finally to a European Commission proposal in June 1984 for a ban on the most common artificial products, trenbolone acetate and zeranol.

The Commission argued that no scientific evidence existed for the outlawing of the "natural" hormones progesterone, testosterone and oestradial 17-beta. These three were cleared by an expert committee appointed by the Commission and chaired by Prof Eric Lamming of Nottingham University.

Despite a lukewarm initial response to the idea from ministers, political pressure continued to grow—resulting in a massive vote in the European Parliament in favour of banning all growth promoters last autumn, and the Commission's subsequent proposals for a complete ban.

Prof Lamming does not disguise his amazement over the way his committee, involving 30 eminent scientists from 10 EEC member states, has been treated. He had been planning to complete his report on the remaining two hormones by the end of last year. But in October, following the Parliament vote, his group was summarily disbanded by Mr Frans Andriessen, the EEC farm commissioner.

"If you legislate in haste, you repent at leisure," Prof Lamming said this week. "He (Mr Andriessen) not only disregarded what we were going to say, but what we had said. His suspension of the group came as a complete surprise.

"Certainly this is without precedent in any scientific advisory committees to the national government. And in any case the majority of my working group considers the current draft directive unworkable."

Mr Andriessen is unperturbed. "Do you really believe that public opinion is concerned by scientific judgment or by a political decision?" he asked at a press conference in London last November. "In public opinion, this is a very delicate issue that has to be dealt with in political terms. Scientific advice is important, but it's not decisive."

Mr Tony Venables, Beuc's director, believes that legislators were persuaded to go for a complete ban by the beef surplus argument. "If we have a beef mountain of 700,000-odd tonnes, it only makes matters worse to use out-of-date hormone growth methods," he says. "And why should legislators be bound by scientific committees?"

Significantly, the same arguments have been applied to the role of fertilisers in contributing to the cereals surplus—even by some senior figures in the National Farmers' Union.

Few people now believe that the Commission or the farm ministers will reverse the hormones ban. The best, perhaps, that the chemicals industry can hope for is that the rot stops there.

Lombard

Time to fall in step with Japan

By Michael Prowse

THE Alice in Wonderland world of international finance is packed with the strangest sights and sounds. One of the delights for aficionados of this theatre of the absurd is the way American and European politicians shamelessly lecture the Japanese on economic policy. Deregulate that, boost this, export less here, and so forth; the advice is never ending. The motto of the Bakers, Lawsons and Beregovoys of this world seems to be: if you only emulate us, your problems will be solved.

It as though a collection of dunces were assembled to lecture a school's scholarship class. As the Japanese economy matures it is undoubtedly encountering new strains and pressures but it still remains an outstanding example for the rest of hte industrialised world. To argue that Japan must change its ways because the world is marching to a different tune makes no sense. The odd thing is that the Japanese are still so meek and so easily lectured.

A good example of the doublethink that is enveloping the financial community occurred in London last weekend at the G5 meeting. Mr Norboro Takeshita, the Japanese finance minister, announced that he was reviewing the system of tax incentives for saving that have been a hallmark of the Japanese economy for decades. It looks possible that the policy of allowing tax-free interest income on small savings accounts up to the equivalent of about £10,500 will be reversed.

Hallowed

Mr Takeshita has no doubt noticed that in "advanced" economies such as the UK or the US, a quite different set of fiscal policies holds sway. As in other areas of economic policy he now seems to be scurrying to jump into line. The hallowed Anglo-American doctrine, lovingly embraced by politicians of all stripes, is that tax incentives for borrowing, particularly for house purchase, are absolutely essential. The different fiscal regimes partly explain why in 1984 gross savings were 32 per cent of GDP in Japan compared with 19 per cent in the UK and 17 per cent in the US.

The wrongheadedness of Japanese tax policies is, of course, demonstrated by the fact that Mr Takeshita has had to jump through a series of artificial hoops in recent months in order to get his interest rates up closer to the respectable level of countries like Britain and America. If only the Japanese would adopt sensible Baker-Lawson incentives for consumer borrowing, Tokyo too could enjoy interest rate high enough to cripple domestic industries. Such a public spirited action by Mr Takeshita would help ease those protectionist pressures Japan has thoughtlessly fanned by producing quality goods so cheaply, and help get the dollar down.

Deliberate

The irony unnoticed by the world's finance ministers is that there are no "incentives" as such for personal saving in Japan. All the Japanese do is refrain from the double taxation of savings practised in the UK and US. Fiscal neutrality requires not that interest income be taxed like any other sort of income but that it not be taxed at all. The point that never seems to be grasped is that savings are made out of taxed income; to tax the return on taxed income is to introduce a deliberate bias in favour of immediate consumption.

Given the power of Congress and its vulnerability to lobbyists, it is perhaps unsurprising that the US Treasury has failed to reform the taxation of saving. The same cannot be said in the UK. The Conservatives have a huge majority and Mr Lawson with a stroke of the Budget pen could introduce in Britain the tax system Mr Takeshita is so keen to dismantle. Besides encouraging thrift and investment (surely bona fide Thatcherite ideals), it would do much more to promote a share-owning democracy than the sale of state assets at knock-down prices.

Letters to the Editor

Fixed exchange rate

From Professor A. Meltzer

Sir,—Rumours of a return by Britain to a fixed exchange rate filter across the Atlantic periodically. Once again, the rumour comes that Britain may choose to join the European monetary system. I hope the rumour is false because, I believe, a fixed exchange rate with the EMS is the wrong policy for Britain, especially at this time.

The pound is often described as a petro-currency. This overstates the case, but it is none the less true that the external value of the pound changes with the price of crude oil. The pound strengthens when oil prices rise and conversely.

Dollar oil prices are expected to decline significantly in 1986. If these forecasts are correct, as speculators now believe, the real value of a barrel of oil in pounds may decline as much as 20 per cent in 1986. If Britain retains a fluctuating exchange rate, a decline in oil prices of this magnitude would cause the pound to depreciate against other currencies, particularly against the currencies of oil importers. Depreciation would raise the domestic prices of imports but would increase exports, production and employment of non-oil goods and services.

The principal countries in the EMS are oil importers. Fixing the exchange rate for the pound against the currencies of these countries imposes a contractive policy under the circumstances anticipated for 1986. To maintain a fixed exchange rate, Britain would have to raise interest rates and depress the domestic economy if the anticipations prove to be correct.

This seems a poor policy for Britain in 1986. It exposes Britain to the type of problem experienced in the 1920s, when employment was sacrificed to maintain a fixed exchange rate. While there are many differences between the present and the past, there is no difference in the principal effect of a fixed exchange rate: the internal value of the currency must adjust to its external value. When internal prices and wages adjust slowly, disturbances abroad impose costs of adjustment at home.

It is difficult to see the benefits to Britain in 1986, or over a longer period, that would offset these costs. Those who point to the greater stability of exchange rates should not stop with that observation. Stabilising the exchange rate is not costless, but costly, and in my opinion more costly than allowing exchange rates to fluctuate.

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Writing risks in the US

From Mr R. Sheehan

Sir,—As an insurance broker woefully short of market for US legal liability risks I was interested to read your article of January 16. I hope that Messrs Nader and Hunter will do something constructive to assist the present capacity problem. As I am sure it is realised it is capacity which has one of the greatest influences on price.

In practical terms may I suggest that they seriously think of forming an insurance company to write the risks which they presently perceive as being overpriced or where no market is available. While I would encourage them to do so, I would have to point out certain important facts. In order to avoid the recent problems where many insurers pulled out of the classes like US legal liability business they would have to convince prospective clients that they will be able to "stay the course." As I am sure they realise it takes a long time to settle legal liability claims: the injury needs to manifest itself; there has to be an investigation into the cause; and there has to be an adjudication that the assured is legally liable. This can take many years, in some cases such as asbestosis claims it can be decades. The insurers must still be in business to settle the claims. Of course the longer you stay in business the more policies you write requiring you to stay in business longer and so on ad infinitum.

Also they would have to convince prospective clients that they could run an insurance company competently. They will need to underwrite competitively, but sensibly. They must administer the company, handling policywork, premium investment and claims. The claims side of the business is very important so they will have to investigate the claims satisfactorily, pursue rights against third parties and pay the claims. There is one crumb of comfort, they probably will not have to look too far for business. There is plenty of it about. Just convince the buyers that they will be a good long-term market, particularly when competition revives.

A very important aspect of course is adequate capitalisation. By and large it is a good thing to have reserves but this may not be vital since they would be just starting up. They would do well to stick to the 2 for 1 ratio that Lloyd's applies, for the security of the policyholder. Of course this would mean a capital in excess of $1.5bn if they were to attempt to depose Lloyd's in the US. This is based on the $3bn figure given in the article though I must admit I was under the impression that the figure was twice that amount — in which case the capital would have to be $3bn.

There is an urgent need for more capacity so its probably best to get into the capital markets as quickly as possible and not waste time talking to the British Labour Party. Someone is bound to point out to them that its primary duty is owed to the British taxpayer and it would be inconsistent for it to give its support to a crusade which is entirely designed to maintain and indeed enhance a higher standard of living in the US at the expense of Britain's invisible export earnings.

Besides talking to capital markets it would be of great help for them to talk to anyone who could improve the legal climate in the US. This applies to court awards and legislation. If they can do something to temper the present situation it would greatly assist the chances of survival of any insurance endeavour they might start up.

I do hope that they will appreciate this advice.

Richard A. P. Sheehan.
50 Cadogan Place, SW1.

The travel trade

From the Chairman,
Exchange Travel Holdings

Sir,—The expertise of the City of London in terms of financial services is assumed to be second-to-none in the world. I beg to differ!

As far as the travel trade is concerned, the City experts fail to differentiate between the various sectors which, combined, are referred to as the travel trade.

An example of this lies in the present price war between, principally, Thomson and Intasun. The City's attitude to this is "Steer clear of the travel trade!" Yet retailers in the High Street benefit enormously from this price war as it stimulates holiday purchases far in excess of the lowering of income from reduced prices. Thomson alone has increased its summer capacity from 1.1m in 1985 to 2.25m in 1986 and, due to the substantial penalties it has imposed upon itself in the event of cancellation or alteration of holidays, the 2.25m must be sold. In the light of these circumstances, while the tour operating sector will be facing up to low or non-existent profits, the retailers will be in a most profitable phase.

Gordon L. McNally.
Exchange House, Parker Road,
Hastings, East Sussex.

Building cash mountains

From Professor J. Brignell

Sir, — Your perceptive editorial (January 17) on the GEC bid for Plessey made the point that this was not automatically A Good Thing, a point of view not apparently shared by a columnist in the same day's Times. Sheer size does give a company some advantages. As a hypothetical example a company could threaten to put a town out of work if it failed to obtain a sizeable contract and therefore might nullify the technical argument which points to better qualified competitors. The tab might then be picked up by the taxpayer under a later government.

Arguments can rage as to the management structures of companies like English Electric and AEI but they also had some of the world's most outstanding research and development teams. Who can judge how much the absent product of such teams is responsible for a current industrial malaise?

A further advantage of size is that competitors are forced to fall in line with one's policy, whether it is in the national interest or not. Thus if an industrial giant gains an advantage by such actions as reducing profit horizons others may be forced to follow suit.

Plessey is widely regarded as one of the more creative of our major electronics companies, but perhaps logic dictates that in the current lunatic financial climate its board should sell all the assets and put the money in a building society. Chairmen who stray into taking a long view tend to be nominated for ritual sacrifice in the City. Short term profit and the building of cash mountains seem to have displaced long term technological investment, but uniquely in the UK.

Professor J. E. Brignell.
Department of Electronics and Information Engineering,
University of Southampton,
Southampton, Hants.

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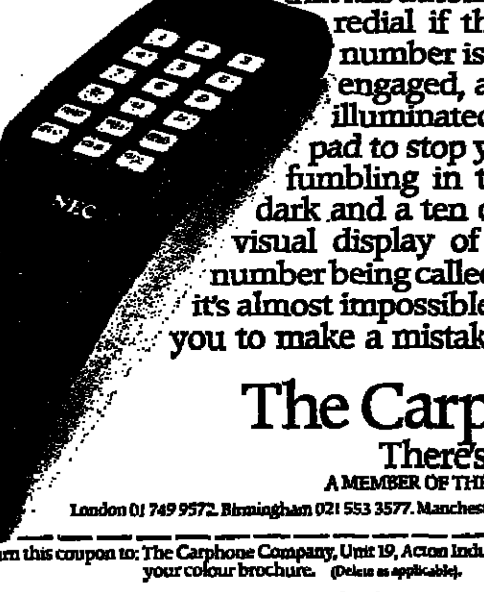

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FINANCIAL TIMES
Friday January 24 1986

BELL'S
SCOTCH WHISKY
BELL'S

James Buxton reports on growing fears over the survival of the Italian Government

Craxi a victim of his own success

THE ITALIAN Government decided yesterday to seek the co-operation of the opposition parties in winning parliamentary approval for the 1986 Finance Bill by the end of this month, after another serious defeat on a clause in the bill yesterday.

The defeat came only one day after the Government won a vote of confidence, but there are now fears that the Craxi Government may not be able to survive much longer in its present form.

Wednesday's vote of confidence was called to reverse an earlier defeat on a clause in the Finance Bill. But the practice of calling a vote of confidence – which is virtually routine – did not work its usual magic in reuniting the disparate forces of the five-party coalition that Mr Bettino Craxi leads.

Italian Members of Parliament are, with the exception of the Communists, far less disciplined than those of most European countries. Unlike almost every parliament in the democratic world, dissident MPs in Italy can cause grave damage to the governments they are supposed to support, without being found out.

That is because much parliamentary voting is by means of a secret electronic ballot. So government MPs, usually from the large and factious Christian Democrat Party, can vote against their party line without having to make their decision public.

That is what about 40 government deputies appear to have done in the Chamber on Tuesday when they were asked to vote on a clause early in the Finance Bill, which would substantially raise charges for Italy's heavily subsidised university students.

Their action might not have been decisive, however, had it not been that about another 100 government MPs, out of a total of 366, were absent from the Chamber altogether. Yesterday's defeat was caused by the same combination of factors.

By presenting the clause again and linking it to a vote of confidence in the Government as a whole, the Craxi Administration was able to reverse the defeat the next day. The "franchi tiratori," or concealed snipers, who had voted against the Government, could not repeat their trick because a vote of confidence is taken by means of a public roll call, in which each MP has to declare himself.

But the affair still has ominous implications for the Government. The voting on the Finance Bill, which contains a mass of measures that affect everyday life, is usually the time when Parliament is at its most attentive.

For many observers the lack of interest of so many MPs reflects the discontent that has afflicted the whole Craxi Administration for several months.

The Government almost fell last October over the repercussions of the Achille Lauro hijacking. Thanks to considerable constitutional ingenuity, it was reinstated with its composition unchanged, but with an objective that amounted to little more than getting the 1986 Finance Bill approved as soon as possible.

What would happen after that was – and is – anyone's guess. Mr Ciriaco de Mita, the Christian Democrat leader, has made no secret that it is time his party wrested the prime ministership out of the hands of the Socialist Mr Craxi, and restored it to a representative of the party that has held it almost without interruption since the Second World War.

Mr de Mita would also like to obtain at least a firm commitment on an early handover of power before he faces his party congress for re-election in May.

Mr Craxi, needless to say, thinks otherwise. He has been in power for almost 2½ years, holding the record for the longest surviving Government Italy has seen since the Second World War. He enjoys power and the fact that he has retained it so successfully speaks for itself. How much his Government has actually achieved, beyond giving Italy the priceless gift of continuity, is a separate question.

But Mr Craxi's Government is in a sense a victim of its own success. Governments everywhere need periodic renewal – new faces in ministerial posts and new policies. But cabinet reshuffles in Italy have such serious ramifications affecting the intricate balance of power, within and between the ruling parties, that they are normally possible only when there is a completely new government.

The same has up till now gone for new government programmes. The only ministerial changes the Craxi Government has seen have been due to extreme necessity – the death of ministers or otherwise unavoidable transitions.

There are now several ministers who, it is generally reckoned, ought to be replaced, and others who are keen to move from the tedium of office to politically more rewarding party posts. Furthermore, there are plenty of men who did not get ministerial posts when Mr Craxi came to power in 1983 who are still out in the cold – and thus easy recruits for the franchi tiratori.

In the past, when governments changed on average every 10 months, that situation would have been remedied long ago. But as Mr Gianfranco Piazzesi, one of the country's leading political commentators, wrote in the newspaper La Stampa yesterday: "Slow process of rotation is altering the biorhythms of the political world."

Adjusting to the new vibrations emanating from the core of Italian political life is likely to be painful. So might be the coming battle between Mr Craxi and Mr de Mita over who rules the country between now and the end of the present Parliament in 1988. Meanwhile, the Government might proceed, in Mr Piazzesi's phrase, rather like the Paris-Dakar motor rally: an average of four prangs a day.

THE LEX COLUMN

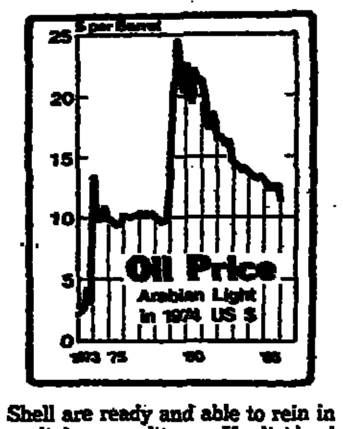
Black gold at a discount

The oil market might have expected Saudi Arabia to turn up the heat yesterday and the UK Government to continue to sit tight, despite the understandable desertion of Norway; but the statements from Sheikh Yamani and the Treasury gave an extra push to tottering prices in the spot market. A cargo for April delivery traded at $17 a barrel, making the week's early purchases of long-haul crude for Japan look a shade rash.

As for Sheikh Yamani, he appears determined to talk oil prices down until the UK Government, followed by the rest of Opec, give in and take over some of the penalties of swing production. After all, Saudi exports are now running at well over double the absolute low level of last summer; and even on a netback yield of as little as $15 a barrel of Arabian Light, Saudi income is running 50 per cent higher than it was then; and it is not as if the Saudi Government has to bear any oil price risk in its exchange rate or face a difficult King's Questions in parliament. Equally, the UK Treasury seems content to repeat the familiar quadratic equation involving the oil price, the exchange rate and the Retail Price Index. Irresistible force meets immovable object. Oil price falls.

Whatever the advantage of falling oil prices for equities in general, the UK market has begun at last to reassess its attitude to the oil sector. This has survived so far on the basis of double market yields (for the majors and Britoil) and a flurry of corporate activity among the exploration stocks. Clearly, a share price such as that of Tricentrol, which yields 10 per cent on its final dividend alone, is discounting everything short of going bust. Presumably, that is what would happen if companies were to continue their exploration programmes while a falling oil price robbed them of both their tax shelter and the present value of anything they find.

For BP and Shell, the prospect of a dividend cut looks as remote as ever: even without netback deals that transfer the risk of product price falls to the producing country, refining margins – on a current cost of supplies basis – are going through the roof and will not be competed away for some time. However, the prospect of dividend increases at this sort of oil price rests increasingly on the rather unlikely supposition that the likes of



Shell are ready and able to rein in capital expenditure. If dividend growth is off the cards for the next two years, yields for the majors of under 10 per cent must be vulnerable to the attractions of fixed-interest investment.

Coats Patons

The effect that can be achieved by a bald, brief statement is quite remarkable. Coats Patons' announcement that it had received an approach which may or may not lead to an offer immediately lifted the company's share price by a quarter and left its shareholders, on paper at least, £144m better off.

Coats is in some respects an obvious target, offering just the combination of brand names, solid assets and cash generation which everyone on the takeover trail currently finds so attractive. But, while it is possible to arrive at a value at least 20 per cent above last night's price of 201p simply by attributing multiples to the earnings of the individual divisions, it is not easy to see how that value could be realised.

Profits from Coats' South American – and even Mediterranean – operations are not of the highest quality; nor are they easy to remit. Moreover, Coats is locked into so many companies with outstanding minorities that unravelling the business would be a nightmare. Precision engineering is admittedly self-standing and a concept retailer would no doubt be happy to take both Jaeger and Country Casuals off the group's hands for a fancy price. But Coats is, for the most part, an integrated textiles business and the likelihood must be that the source of the bid approach lies somewhere in the textile trade.

By yesterday evening, the stock market had run through about 12 contenders and had alighted on Courtaulds as the most likely bidder. While a friendly merger between the two might have a few merits – Coats could benefit from the injection of the more incisive management of its near neighbour in Hanover Square – Courtaulds would have a job justifying the deal to its shareholders.

Coats hardly squares with the stated Courtaulds strategy of improving earnings quality by acquiring speciality chemicals interests in North America. Putting Coats and Courtaulds together would have much the same effect as merging ICI with a polyethylene manufacturer.

Now that relative size has ceased to be a restraint on takeover speculation, the market has an almost limitless list of other potential bidders to choose from. Entrad, Vantona and Tootal were all being mentioned in despatches yesterday. You pays your money and you takes your choice.

Westland

As so-called long-term institutional holdings crumble (at sufficiently silly off-market prices) the Westland share register is taking on a strikingly clotted appearance. By the time Westland's latest reconstruction scheme is put to shareholders next week, almost all the shares will doubtless have coagulated into two roughly equal and opposing blocks. The value of those shares which have yet to solidify is likely to be levered upwards until one or other side is convinced that it has bought enough for safety.

If Westland is no investment for the Prudential – which perhaps wants to shake off the more virginal overtones of its "responsible proprietor" act – then it is the more certainly no place for the individual investors who have been losing out since the horse-trading started. Though really fancy prices, like the 150p which the Pru accepted from Sikorsky, are reserved for large players, normal stock exchange floor trading in Westland has – up to a point – reflected the auction taking place upstairs. Any remaining small holders who can still get the 130p or so that was available in the market yesterday should surely do so.

French about-face on SDI contracts

By David Marsh in Paris

MR PAUL QUILÈS, France's Defence Minister, said yesterday he was in favour of French companies taking part in the US Strategic Defence Initiative (SDI) research programme.

In a switch from the Government's previous lukewarm attitude about participation by French groups, Mr Quilès said it would be "regrettable" if companies such as the state-owned Compagnie Générale d'Electricité (CGE) electronics concern could not win SDI contracts.

Although Mr Quilès said that his statement did not change the French Government's opposition to the strategic concept of SDI, it amounts to a marked change of tone.

His remarks, made during a visit to CGE's research centre at Marcoussis, near Paris, will be interpreted as giving a green light to the cluster of French high-technology companies keen to do business with the SDI organisation in Washington.

They also confirm the view of the US that France will inevitably have to show greater interest in participating in SDI to avoid falling behind in key military technology compared with Britain and West Germany. The UK has already signed an agreement with the US over SDI participation, while the details of a similar accord involving German companies are being discussed by Bonn and Washington.

Among the French groups showing interest in SDI apart from CGE, whose Cilas subsidiary has a European lead in military lasers – are Thomson Aerospatiale and Matra.

The first three companies are nationalised, while Matra – which was the first French group to declare outright public interest in SDI contracts – is owned 51 per cent by the state.

Up to now the French Government has declared it would not oppose SDI participation by French companies or research institutes, but has stopped well short of endorsing any such involvement.

During his visit, Mr Quilès announced that France would be starting full-scale military laser experiments at the ballistic missile test centre in Landes.

Even though France remains sceptical about the feasibility of mounting a "leak-proof" anti-ballastic missile defensive shield, it is interested in exploring means to defend key military sites such as rocket silos and command installations from nuclear missile attack.

Peres talks in London place more pressure on Hussein

BY ROGER MATTHEWS, MIDDLE EAST EDITOR, IN LONDON

MR SHIMON PERES, the Israeli Prime Minister, held further talks in London yesterday with Mr Richard Murphy, the US assistant Secretary of State, after what Israeli officials described as "two nights of agonising" over ideas for advancing the Middle East peace process.

A spokesman for Mr Peres claimed that half of the obstacles that had prevented direct negotiations with King Hussein of Jordan had now been overcome. The problems that remained were not easy, but they were not insurmountable.

Israeli officials are confident of King Hussein's desire to make progress, and say he and Mr Peres share the same sense of urgency. "King Hussein knows that one way or the other, he will have to make an historic decision within a few weeks," said an Israeli official.

Israel is urging King Hussein and Western European governments to accept that Mr Yassir Arafat, the chairman of the Palestine Liberation Organisation, has finally dealt himself out of the peace process. Mr Peres's Aides argue that it has been a tragic mistake for the past 20 years to believe that the PLO was capable of change.

In particular, they point to Mr Arafat's refusal to provide a clear answer to the demands of King Hussein and President Mubarak of Egypt that he should renounce terrorist acts and accept United Nations resolutions 242 and 338, which guarantee Israel's right to exist.

Israeli officials want King Hussein to find Palestinian negotiators among those living under occupation in the West Bank and Gaza. They claim there is a substantial body of support for the King in the territories and that moves towards the negotiating table would be enthusiastically welcomed in the West Bank.

It is also accepted by Mr Peres that King Hussein requires some form of international framework for the negotiations and that is understood to have taken up a large part of the Israeli Prime Minister's discussions this week with Mr Murphy.

However, Mr Peres fundamentally opposes the Soviet Union's being allowed to play a role unless it agrees to re-establish diplomatic relations with Israel.

Israel believes that Britain and other members of the European Community could help to facilitate this international forum, which it sees as an umbrella for the peace process but not a substitute for face-to-face negotiations.

Sir Geoffrey Howe, the British Foreign Secretary, told Mr Peres on Wednesday that Britain would be ready to participate in an international forum if the right formula could be found. But there are also strong fears in Whitehall about the dangers to King Hussein if he enters negotiations with Israel without any form of PLO co-operation and in direct opposition to the wishes of Syria and other Arab states.

● Mrs Margaret Thatcher, the British Prime Minister, said last night that she hoped to visit Israel in the summer to continue the talks she has held this week with Mr Peres.

Lebanon militias clash, Page 3

Third World presses Paris in credit war

By Our Paris Staff

THE US Government's $300m "war chest" programme of cheap export finance is encouraging some developing countries to try to wrest even lower terms from rival exporters, led by France, Mr John Lang, director of trade finance at the US Treasury, said yesterday.

Mr Lang was in Paris for talks among the main industrialised countries over the use of "mixed credits" in trade financing. He said time was running out to secure an agreement

This week's meetings at the OECD of trade officials made no progress on the issue of mixed credits. This was because the EEC failed to agree to meet a US request to raise the minimum-aid element in mixed credits to 50 per cent from 25 per cent to make them commercially prohibitive.

The issue of mixed credits is the practice under which governments tie together grants and export loans to cheapen financing on export bids to the Third World.

The $300m war chest programme was announced by President Ronald Reagan in September. This represented a bid to match cheap mixed-credit packages put together particularly by France to back French companies in competition with the US on world markets.

ITT digital switch

Continued from Page 1

cess in selling System 12 in Europe and elsewhere into a strong competitive position in the US. Last year ITT attempted to accelerate conversion of System 12 to US standards by abandoning research work on 20 other projects at its advanced technology centre in Sheldon Connecticut.

However, ITT said yesterday that it had told United Telephone of Florida, a subsidiary of United Telecommunications, late last year that it would not now be able to meet the delivery schedule which called for installation in the 1986 fourth quarter.

The group said delivery could be delayed by a year although it added the delay "might be less or more" depending on United Telephone's selecting another site for installation. ITT, which has spent an estimated $300m including $105m last year alone, attempting to adapt the System 12 technology and software for the US market, cited "delays in development" as the reason for the installation postponement.

System 12 is highly rated in terms of its modular technology which was mostly developed in ITT's European subsidiaries. According to ITT, about 75 per cent of the technology is directly transferable to the US. Industry experts believe, however, that the key problem is adapting the complex software which makes the computer switch work.

In Europe, ITT has fallen behind on some delivery schedules although the group insists that it is "catching up" on delivery schedules overseas and fiercely denies rumours that it has lost any orders because of shipment delays.

Some Wall Street analysts believe, however, that ITT may eventually be forced to choose between meeting production targets in Europe and elsewhere – and the lure of competing in the US digital switch market. ITT has given no indication that it is prepared to abandon its US development and marketing efforts. The company, however, has subtly changed the terms in which it refers to the US market which it now terms "an opportunity" rather than a key test for System 12.

The implications of the delay announced yesterday stretch far beyond that order. ITT has sought to "short circuit" the complex Bell telephone system evaluation process by persuading Bellsouth to install a System 12 switch on test late this year or early in 1987.

That test is crucial in ITT's attempts to sell the switch to the local Bell telephone operating companies which will account for the bulk of orders over the next few years. ITT has long been expected to announce its first commercial Bell system effort. ITT itself said yesterday that the delay will not affect its efforts to win a Bell system order

Fed board nominees defend autonomy

By Stewart Fleming in Washington

PRESIDENTIAL nominees to two key posts on the seven-member Federal Reserve Board, who some fear might help to tilt monetary policy in a more expansionary direction, yesterday defended the independence of the Central Bank in confirmation hearings before the Senate banking committee.

During more than four hours of questioning, Dr Wayne Angell, a professor of economics at Ottawa University in Kansas, and Dr Manuel Johnson, described in the hearings by Senator William Proxmire as one of the architects of President Reagan's economic policies; argued that the independence of the Central Bank from political pressures had made a large contribution to promoting economic stability in the US.

Both men are expected to be confirmed, bringing to four the number of members of the Fed board who have been appointed by President Reagan. There has been speculation that that shift may make it more difficult for Fed Chairman Mr Paul Volcker to dominate the central bank board's proceedings.

But it is pointed out too that so far as key monetary policy decisions are concerned, those are arrived at in the Federal Open Market Committee, the 12 members of which include (on a rotating basis) five presidents from the 11 regional Federal Reserve banks. Over the past two years, a number of new appointments to the top jobs in regional Fed banks have been filled by individuals widely seen as sympathetic to Mr Volcker's views on many issues.

Dr Angell, who has been backed heavily by the Republican Senate majority leader Mr Robert Dole, is a 55-year-old economist, but a man who has spent his life farming in Kansas, where since 1972 and 1975 he has also been president and chairman respectively of two small regional banks.

Describing himself "a Fed loyalist" and a "hard money populist," Dr Angell, who also served as a director of the Kansas City Fed, placed heavy emphasis on the need to achieve price stability. "I do not believe the answer to the farmers' problem is in re-inflating," he said.

Dr Johnson, a 36-year-old economist who is currently assistant Treasury Secretary for Economic Policy, is expected to fill a full 14-year term as a Fed governor, whereas Dr Angell is completing a term that expires in January 1994.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	R	10	50	Dubrovnik	C	10	50	Malaga	F	15	59	Salzburg	C	5	41
Akrotiri	S	15	59	Faro	C	14	57	Malta	F	16	61	Seoul	Sn	3	37
Algiers	C	15	59	Florence	R	9	48	Manila	C	29	84	Singapore	F	28	82
Amsterdam	S	7	45	Frankfurt	R	7	45	Miami	C	24	75	Stockholm	C	0	32
Athens	F	15	59	Funchal	C	17	63	Milan	D	1	34	Strasbourg	R	9	48
Bahrain	C	18	64	Geneva	R	5	41	Moscow	Sn	−2	28	Sydney	—	—	—
Bangkok	S	33	91	Gibraltar	S	15	59	Munich	R	5	41	Taipei	C	13	55
Barcelona	F	13	55	Guernsey	R	9	48	Nairobi	F	25	77	Tangier	C	13	55
Beirut	F	13	55	Helsinki	C	0	32	Naples	F	14	57	Tehran	—	—	—
Belgrade	S	12	54	H. Kong	S	17	63	New Delhi	S	20	68	Tel Aviv	S	14	57
Berlin	C	6	43	Innsbruck	C	2	36	New York	C	15	59	Tenerife	F	19	66
Biarritz	—	—	—	Inverness	C	3	37	Nice	F	12	54	Tokyo	S	6	43
Blackpool	F	5	41	Istanbul	S	12	54	Oporto	C	13	55	Toronto	C	5	41
Bordeaux	—	—	—	Jersey	C	9	48	Oslo	C	2	36	Tunis	F	16	61
Brussels	F	8	46	Jo'burg	F	21	70	Paris	R	10	50	Valencia	F	19	61
Budapest	S	10	50	Las Palmas	C	19	66	Prague	F	5	41	Venice	Fg	3	37
B. Aires	S	36	97	Luxor	S	24	75	Reykjavik	S	−2	28	Vienna	F	9	48
Cairo	S	18	64	Lisbon	C	14	57	Rio de J'o	S	36	97	Warsaw	S	5	41
Cape Town	S	29	84	Locarno	C	3	37	Rome	F	15	59	Zurich	R	5	41
Caracas	S	27	81	London	F	9	48								
Casablanca	S	15	59	Los Angeles	F	20	68								
Copenhagen	F	3	37	Luxembourg	R	7	45								
Corfu	R	14	57	Madrid	F	10	50								
Dublin	F	4	39	Majorca	F	15	59								

Readings at mid-day yesterday:

C-Cloudy D-Drizzle F-Fair Fg-Fog R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

ITC set for talks with creditors

BY STEPHAN WAGSTYL IN LONDON

THE INTERNATIONAL Tin Council (ITC) looks ready to start negotiating with its creditors for a settlement to the three-month-old tin crisis.

The three countries of the 22-nation council that had been most opposed to negotiation – West Germany, France and the Netherlands – yesterday agreed that talks should start. The ITC, which managed a tin price-support pact, ran short of money in October with huge debts to banks and brokers on the London Metal Exchange (LME), the world's leading metals market.

While the members of the ITC now agree in principle to negotiate, they are still deeply divided on possible settlement terms. It remains to be seen whether they can reach common ground when the council resumes its emergency meeting today.

Moreover, it seems that any council proposals would fall far short of the creditors' demand so a settlement might still prove elusive.

The creditors' latest rescue plan calls for setting up a new company to take over the ITC's assets and liabilities, funded with £200m from governments, £50m from brokers and £20m from banks.

Yesterday the EEC – excluding the UK – said that even £100m from governments would be too high. An independent Dutch proposal suggested only a £30m contribution from consuming countries (which make up half the council). The UK, which has a special interest in the LME, is under pressure to put up more cash than just its ITC contribution. Delegates also want brokers, and especially banks, to concede more.

The creditors' patience is, meanwhile, running out. The LME authorities meet today to discuss whether to re-open the tin market, which has been suspended since October 24.

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